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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1995

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Treasury, Postal Service, and Gener...

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BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

SUBCOMMITTEE ON THE TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS

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PART 2

UNITED STATES POSTAL SERVICE

Printed for the use of the Committee on Appropriations

TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR FISCAL YEAR 1995

HEARINGS

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TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS FOR 1995

WEDNESDAY, MARCH 23, 1994.

UNITED STATES POSTAL SERVICE

WITNESSES

MARVIN RUNYON, POSTMASTER GENERAL AND CHIEF EXECUTIVE OFFICER

JOE CARAVEO, CHIEF OPERATING OFFICER AND EXECUTIVE VICE PRESIDENT

MIKE RILEY, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

Mr. VISCLOSKY [presiding]. The committee is in session. I apologize for Mr. Hoyer's temporary absence. He is chairing the Democratic Caucus upstairs and as soon as he is done, he will return. He extends his apologies, Mr. Runyon, that he is not able to begin the hearing.

Also, because we have Chairman Yates with us, what I would like to do is to read an opening statement. Mr. Lightfoot is soon to join us, allow Mr. Lightfoot the same opportunity, and then allow you to do your opening statement.

Following that, if we could recognize Mr. Yates for his testimony and any questions that he has. We will then proceed with general questioning.

I would like to welcome the Postmaster General today. We are pleased to have you appear before the committee. Last year at this time Chairman Hoyer challenged you and the preferred rate mailers to work together to arrive at a compromise which would recognize the budget realities that we were facing, that we are still facing. We are pleased that, after a lot of work, that compromise was reached.

In fiscal year 1994 we included the Revenue Foregone Reform Act in the Treasury, Postal Service, and General Government Appropriations Act. This act radically changed the way that revenue foregone is funded.

Under the Revenue Foregone Reform Act, the rates being charged to preferred rate mailers will increase each year for the next six years until the preferred rate mailers are paying half of their overhead nonattributable costs.

Further, under the act, any second class publication that has more than 10 percent advertising would have to pay the full nonpreferred rate for all advertising. It also limited the type of advertising that can be included in preferred rate third class mail to

that which is substantially related to the social, education, religious, et cetera, purposes of the preferred rate mailer.

Finally, the act authorized the payment of $29 million per year through fiscal year 2035 to repay the Postal Service for phasing out costs and shortfalls in funding in fiscal year 1991 through fiscal year 1994.

I would like to acknowledge that Mr. Clay, Chairman of the Post Office Civil Service Committee, did an outstanding job on the Revenue Foregone Reform compromise. The Postal Service has also proposed a rate increase for all classes of mail which would go into effect sometime early next year.

We will review that increase as well as the overall financial condition of the Postal Service during this hearing.

Again, I welcome you to the committee, Mr. Lightfoot, Mr. Runyon, and Mr. Yates. Mr. Yates is a former member of this subcommittee, a current member of the Appropriations Committee and distinguished Chairman of the Interior Subcommittee. He has some matters about which he would like to ask you, and Mr. Hoyer and Mr. Lightfoot have agreed that Chairman Yates will be recognized following your opening statement.

Mr. Yates, welcome to you.

Mr. YATES. Thank you.

Mr. VISCLOSKY. And when Mr. Lightfoot appears, obviously I would want to recognize him for his statement. In his absence, Mr. Runyon, if you want to proceed.

[The prepared statement and budget justifications follow:]

Statement of

Marvin Runyon

Postmaster General and Chief Executive Officer
U. S. Postal Service

Before the

Subcommittee on Treasury -- Postal Service and General Government
Committee on Appropriations
U.S. House of Representatives

Washington, DC
March 23, 1994

Thank you, Mr. Chairman, and good morning.

With me today are Joe Caraveo, Chief Operating Officer and Executive Vice President, and Mike Riley, Senior Vice President and Chief Financial Officer.

We appreciate the opportunity to discuss the Postal Service's appropriation request for Fiscal Year 1995.

The President's budget recommends that the Postal Service receive its net appropriation request of $130,093,000 for Fiscal Year 1995. This proposal is $144,000 smaller than that received for Fiscal Year 1994.

We have requested, and the Administration recommends, the appropriation of $92,317,000 for revenue forgone for free and reduced postage rates. Of this amount, $63,317,000 will reimburse the Postal Service for free mail for the blind, and for overseas voting. The remaining $29 million is the first in a series of appropriations authorized to reimburse the Postal Service for shortfalls in funding.

The modest size of the revenue forgone item in this year's budget reflects the impact of last year's Revenue Forgone Reform Act. The act provided that nonprofit groups and commercial mailers will share the overhead institutional costs previously covered by the revenue forgone appropriation.

The rates on nonprofit mail matter will be phased upward over a six-year period, until they cover 50 percent of the institutional cost markup charged to the corresponding commercial classes of mail. The remainder of their overhead costs will be paid for by commercial mailers. Under the Act, the Postal Service will be partially

reimbursed for past revenue forgone shortfalls and the revenue lost during the phase-in period by small appropriations over 42 years.

The Act also placed significant new restrictions on the commercial use of nonprofit postage rates to limit the subsidies required from regular rate postal customers. It will trim almost $20 million in annual costs by amending the preferred rate eligibility for mailings containing advertising and certain pieces sent at library rates.

We are currently preparing final regulations to implement the new restrictions on unrelated advertising and assist nonprofit mailers in complying with them. After the Treasury/Postal Service Appropriations Act was passed last year, we published proposed rules in the Federal Register on December 10, 1993, and sought comment from the mailing community. At the request of many nonprofit mailers, we extended the comment period for an additional 30 days, and on January 28, held a "town hall meeting" at Postal Service Headquarters to receive additional feedback on the development of the regulations. We are currently reviewing the several hundred comments we received on this proposal, and are working to prepare a final rule.

As much as possible, these regulations will apply definitions and precedents already developed by the Internal Revenue Service as to what products and services are "substantially related" to the purposes of an organization. We are gratified by the many helpful comments and suggestions we have received from the nonprofit mailing community, and will be incorporating a large number of them in the final rule. In addition, we plan to issue a guide later this year that will be patterned on the one suggested by the Advertising Mail Marketing Association and the Alliance of Nonprofit Mailers at the "town hall meeting."

The Joint Explanatory Statement in the conference report containing the Revenue Forgone Reform Act urged the Postal Service to "administer the new eligibility reforms in a manner that does not unduly jeopardize continued access to the Postal System by reduced rate mailers who are seeking to comply with the new standards." The conferees also suggested that the Postal Service should consider a phased-in enforcement policy for the new rules. We are working to accomplish this.

The budget also contains our request for an appropriation of $37,776,000 for Fiscal Year 1995. This money would be transferred to the Department of Labor to cover workers' compensation payments for former Post Office Department employees disabled by work injuries before postal reorganization.

Although an annual public service appropriation of $460 million to the Postal Service is authorized by law, we have not asked for or received one since Fiscal Year 1982. Once again, we make no request for this funding for Fiscal Year 1995. However, the lack of a public service funding request should not suggest a lack of commitment to customer service and satisfaction on our part.

Customer satisfaction is the first of our three corporate goals and foremost in the minds of our employees. Since our last hearing, we have done a number of things to improve our performance and make it easier for our customers to use the mail. In response, America's households gave us record approval ratings in 1993, and in the first quarter of this fiscal year, our performance was up one percentage point over the same period in 1993. I am pleased to say that these independent ratings are confirmed by recent Roper Reports, as shown here *(referring to chart that will be on display)*. The Postal Service once again ranked first among 14 federal agencies, and we were the only one to improve our score over the previous poll.

In our first quarter, on-time delivery of overnight First Class Mail was essentially steady. Unfortunately, the earthquake in Los Angeles and the winter's record low temperatures and punishing storms made it difficult for us and all service organizations to operate. Our people showed great courage and commitment, digging their way through debris, ice, and snow. We did our best to balance the need to serve our customers with the desire to ensure the safety and well-being of our employees in these often treacherous conditions. Still, we expect a negative affect on our service performance scores in Quarter II.

While service levels continue to be good nationwide, we recognize that we have some problems in particular locations. We are directing our attention toward improving service quality in these areas and across the country.

We are also working to keep stamp prices low and competitive for our customers. We already deliver 40 percent of the world's mail, and our 29-cent First-Class rate is the lowest in the industrialized world, as you can see here *(referring to chart that will be on display)*. Through the efforts of our employees, we've been able to extend our traditional three-year rate cycle and keep our rates stable for a record four years.

In preparation for the eventual increase in 1995, we have filed a new rate proposal with the Postal Rate Commission. I'm pleased to report that this 10.3 percent across the board increase is the smallest ever sought by the Postal Service . . . two percentage points below the rate of inflation . . . and half of what the mailing industry was expecting just last fall. A measure of our proposal's economy and fairness is the strong support it has received from a wide cross-section of mailers.

By extending our rate cycle an extra year and seeking a 32-cent stamp in 1995 instead of the previously expected 35-cent stamp in 1994, we are saving postal customers $14 billion through 1996. That includes a savings of approximately $300 million to the federal government in postage and other fees.

The Commission now has up to 10 months to consider the proposal before making its recommendation to our Board of Governors, for implementation next year.

We appreciate this opportunity to discuss our appropriations request for 1995, and we remain committed to improving our performance each day, and delivering quality service at a competitive price for the American people.

Thank you, Mr. Chairman. That concludes my prepared statement. We would be pleased to respond to any questions you may have.

# # # #

UNITED STATES POSTAL SERVICE

Fiscal Year 1995 Budget
Congressional Submission

Finance

Budgeting and Financial Analysis

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U.S. POSTAL SERVICE
1995 BUDGET

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U. S. POSTAL SERVICE

1995 BUDGET
PART I
APPROPRIATION REQUEST

U.S. POSTAL SERVICE
Appropriations

The following schedules reflect the Postal Service's budget for Fiscal Year 1995. Funding requested reflects the amounts authorized in 39 U.S.C. §§ 2004 and 2401.

Revenue Forgone
The Postal Service is requesting funding in Fiscal Year 1995 for revenue forgone on free mail for the blind and overseas voting consistent with 39 U.S.C. §2401(c).

Revenue Forgone Reform Reimbursement

The Postal Service requests funding authorized under 39 U.S.C. §2401(d) as reimbursement for losses incurred as a result of insufficient appropriations in Fiscal Years 1991 through 1993, and to compensate for revenues not received as a result of the rate phasing provisions of 39 U.S.C. §3626(a)(3)(B).

Transitional Costs
Funds are requested for transfer to the Department of Labor to cover workers' compensation paid to postal employees for injuries that occurred prior to July 1, 1971, while they were employed by the Post Office Department, which remains a liability of the U.S. Government pursuant to 39 U.S.C. §2002.

Public Service Costs
For public service costs, 39 U.S.C. §2401(b)(1)(G) authorizes, for years after Fiscal Year 1984, an amount equal to 5 percent of the Post Office Department's Fiscal Year 1971 appropriation. This amounts to $460,000,000. Also, section 2401(b)(2) authorizes the Postal Service to reduce such percentage, including a reduction to zero. Since the Postal Service has operated without this appropriation for eleven years, the Postal Service is requesting no appropriation for public service costs during Fiscal Year 1995.

The following schedule provides a summary of the appropriations requested and recommended level of funding.

U.S. POSTAL SERVICE
Appropriations
(in thousands of dollars)

	Public Service Costs	Revenue Forgone	POD Transitional Costs	Total
FY 1993:				
USPS Request	...	481,912	38,614	520,526
OMB Proposal	...	121,912	38,614	160,526
Postal Service Appropriation Act, 1993 -- P.L. 102-393	...	121,912	38,614	160,526
FY 1994:				
USPS Request	...	972,510	38,803	1,011,313
OMB Proposal	...	91,434	38,803	130,237
Postal Service Appropriation Act, 1994 -- P.L. 103-123	...	91,434	38,803	130,237
FY 1995:				
USPS Request	...	92,317	37,776	130,093
OMB Proposal	...	92,317	37,776	130,093

U.S. POSTAL SERVICE
Appropriations Summary
(in thousands of dollars)

	FY 1993			FY 1994			FY 1995	
	Request	OMB Proposal	Appropriated PL 102-393	Request	OMB Proposal	Appropriated PL 103-123	Request	OMB Proposal
A. Total budget authority (appropriation)	520,526	160,526	160,526	1,011,313	130,237	130,237	130,093	130,093
B. Program by activities:								
1. Public service costs	...	...	...	...	...	...	...	...
2. Free and reduced-rate mail (revenue forgone)	429,932	69,932	69,932	909,533	28,457	...	...	...
3. Free for the blind and overseas voting	51,980	51,980	51,980	62,977	62,977	62,434	63,317	63,317
4. Revenue forgone reform reimbursement	...	...	...	...	...	29,000	29,000	29,000
5. Non-funded liabilities of the former POD	38,614	38,614	38,614	38,803	38,803	38,803	37,776	37,776
Total appropriations	520,526	160,526	160,526	1,011,313	130,237	130,237	130,093	130,093

General and special funds:

Payment to the Postal Service Fund

For payment to the Postal Service Fund for revenue forgone on free and reduced-rate mail for the blind and overseas voting, pursuant to subsection 39 U.S.C. §2401(c); $63,317,000.

For payment to the Postal service fund for reimbursement of losses incurred as a result of insufficient appropriations for revenue forgone on free and reduced-rate mail pursuant to 39 U.S.C. §2401(d); $29,000,000.

For payment to the Postal Service Fund for meeting the liabilities of the former Post Office Department to the Employees' Compensation Fund, pursuant to 39 U.S.C. §2004; $37,776,000.

Program and Financing
(in thousands of dollars)

	FY 1993 Actual	FY 1994 Estimate	FY 1995	
			Request	OMB Proposal
Program by activities:				
Payment to the Postal Service Fund for:				
Free and reduced rate-mail-	69,932	...	...	...
Free for the blind and overseas voting	51,980	62,434	63,317	63,317
Revenue forgone reform reimbursement.	...	29,000	29,000	29,000
Subtotal, free and reduced-rate mail	121,912	91,434	92,317	92,317
Previous non-funded liabilities of the Post Office Department	38,614	38,803	37,776	37,776
Total payments to the Postal Service Fund (total obligations)(object class 41.0)	160,526	130,237	130,093	130,093
Financing:				
Budget authority (appropriation)	160,526	130,237	130,093	130,093

U.S. POSTAL SERVICE
Federal Funds
Program and Financing Cont'd
(in thousands of dollars)

	FY 1993 Actual	FY 1994 Estimate	FY 1995 Estimate	
			Request	OMB Proposal
Relation of obligations to outlays:				
Obligations incurred, net	160,526	130,237	130,093	130,093
Outlays	160,526	130,237	130,093	130,093

An appropriation of $63,317 thousand is for reimbursing the Postal Service for providing free mail for the blind and overseas voting; $29,000 thousand is for partial reimbursement for losses incurred as a result of insufficient appropriations for revenue forgone; and $37,776 for payment of previously unfunded liabilities of the former Post Office Department. The $37,776 thousand is for payment to the employees' compensation fund for injuries prior to July 1, 1971. Under the Postal Reorganization Act (PRA), the remaining liabilities of the former Post Office Department remain the responsibility of the United States government, and do not fall on present-day ratepayers who must pay the full cost of present-day operations. The Post Service is not liable to the Department of Labor for these amounts until the appropriation is received.

The following table represents the estimated revenue forgone by the Postal Service in Fiscal year 1995 for carrying certain categories of mail for free.

FY 1995 Appropriation request for free for the blind and overseas voting mail, $63,317,000:

(in thousands of dollars)

ITEM	FY 1993	FY 1994		FY 1995	
	Amount	Amount	Change from Prior Year	Amount	Change from Prior Year
A. Free for the blind	48,675	61,601	12,926	62,542	941
B. Overseas voting	3,305	833	-2,472	775	-58
Total free for the blind and overseas voting	51,980	62,434	10,454	63,317	883

An Appropriation of $63,317,000 is requested for free for the blind and overseas voting which provides funding for:

Certain matter for use by the blind or other persons who cannot use or read conventionally printed materials because of physical impairment is mailable free of postage. In order to qualify, there must be no charge, rental, subscription, or other fee required for such matter.

Items mailable free by a qualifying person include unsealed letters, sound reproductions, braille writers or typewriters, and educational or other materials or devices specifically designed or adapted for use of a visually handicapped person.

Absentee balloting materials are mailable free by members of the Armed Forces and other U.S. citizens residing outside the territorial limits of the United States, and in bulk between state and local election officials.

FY 1995 Appropriation Request for revenue forgone reform reimbursement, $29,000,000:

(in thousands of dollars)

ITEM	FY 1993	FY 1994		FY 1995	
	Amount	Amount	Chg. From Prior Yr.	Amount	Chg. From Prior Yr.
Revenue forgone reform reimbursement	...	29,000	29,000	29,000	...

An appropriation of $29,000 is requested for revenue forgone reform reimbursement to provide partial reimbursement to the Postal Service for losses which it incurred as a result of insufficient amounts appropriated under section §2401(c) for fiscal years 1991 through 1993, and to compensate for the additional revenues it is estimated the Postal Service would have received under the provisions of section §3626(a) for the period beginning on October 1, 1993, and ending on September 30, 1998, if the fraction specified in subclause (VI) of section §3626(a)(3)(B)(ii) were applied with respect to such period instead of the respective fractions specified in subclauses (I) though (V) thereof.

The Revenue Forgone Reform Act authorizes $29,000,000 to be appropriated to the Postal Service for each of fiscal years 1994 through 2035. As of September 30, 1995, $1,160,000,000 of the total authorized amount remains to be requested.

FY 1995 Appropriation Request for the nonfunded liabilities of the former Post Office Department, $37,776,000:

(in thousands of dollars)

ITEM	FY 1993	FY 1994		FY 1995	
	Amount	Amount	Chg. From Prior Yr.	Amount	Chg. From Prior Yr.
Employees' Compensation Fund ...	38,614	38,803	189	37,776	-1,027
Total Post Office Department Liabilities	38,614	38,803	189	37,776	-1,027

Employees' Compensation Fund $37,776,000:
An annual amount is requested to fund compensation paid to postal employees for injuries which occurred prior to July 1, 1971, while they were employed by the Post Office Department, which remain liabilities of the U.S. Government. The Postal Service annually requests an appropriation to cover the amount billed by the Department of Labor for compensation payments made in the latest fiscal year. The amount appropriated is then reimbursed to the Department of Labor. A schedule providing the number of cases and costs of compensation by fiscal year follows:

Actual Year	Budget Year	Number of Cases	Costs ($000)		Unappropriated Amounts ($000)	
1972	1974	26,357	30,096			
1973	1975	10,429	24,451			
1974	1976	9,340	27,913			
1975	1977 & T.Q.	8,407	30,805			
1976	1978	7,571	33,791			
1977	1979	6,898	34,632			
1978	1980	6,639	35,655			
1979	1981	5,497	37,109			
1980	1982	5,069	38,240			
1981	1983	4,486	39,991			
1982	1984	4,313	42,790			
1983	1985	3,964	42,066			
1984	1986	3,562	39,128	No Funds Appropriated	39,128	
1985	1987	3,358	40,049	No Funds Appropriated	40,049	The 1990
1986	1988	3,125	39,507	$1,000 Appropriated	39,506	appropriation
1987	1989	2,912	37,436	No Funds Appropriated	37,436	was reduced $517
1988	1990	2,766	36,942			thousand pusuant
1989	1991	2,634	38,142			to P.L. 99-177
1990	1992	2,500	40,575		156,119	
1991	1993	2,405	38,614			
1992	1994	2,295	38,803			
1993	1995	2,192	37,776			

U. S. POSTAL SERVICE

1995 BUDGET
PART II
FINANCIAL STATEMENTS

U.S. POSTAL SERVICE

The Postal Reorganization Act of 1970 (PRA), Public Law 91-375, converted the Post Office Department into the U.S. Postal Service, an independent establishment within the executive branch. The Postal Service commenced operations July 1, 1971. This agency is charged with providing reliable mail service at reasonable rates and fees.

The U.S. Postal Service is governed by an 11-member Board of Governors, including 9 Governors appointed by the President, the Postmaster General who is selected by the Governors, and the Deputy Postmaster General who is selected by the Governors and the Postmaster General.

Decisions on changes in domestic rates and postage and fees for postal services are recommended to the Governors of the Postal Service by the independent Postal Rate Commission after a hearing on the record under the Administrative Procedure Act. The Commission also recommends decisions on changes in the domestic mail classification schedule to the Governors. Decisions of the Governors on rates of postage, fees for postal services, and mail classification are final, subject to judicial review.

Programs - Included are all postal activities providing window services; processing, delivery, and transportation of mail; research and development; administration of postal field activities; and associated expenses of providing facilities and equipment.

Financing - The activities of the U.S. Postal Service are financed from the following sources: (1) mail and services revenue; (2) reimbursements from Federal and non-Federal sources; (3) proceeds from borrowing; (4) interest from U.S. securities and other investments; and (5) appropriations by the Congress. All receipts and deposits are made to the Postal Service Fund and are available without fiscal year limitation for payment of all expenses incurred, retirement of obligations, investment in capital assets, and investment in obligations and securities.

Section 2005 of Title 39, United States Code, authorizes the Postal Service to borrow money and to issue obligations for this purpose. Through the end of Fiscal Year 1990, the aggregate amount of such obligations outstanding at any one time was limited to $10 billion. This maximum amount was increased to $12.5 billion in Fiscal Year 1991 and to $15.0 billion for Fiscal Year 1992 and each fiscal year thereafter. Also beginning in Fiscal Year 1991, the net increase in amounts outstanding in any year may not exceed $2.0 billion in obligations issued for the purpose of capital improvements and $1.0 billion for the purpose of defraying operating expenses. As of September 30, 1995, it is expected that the total debt instruments issued and outstanding pursuant to this authority will amount to $12.2647 billion.

The PRA created an independent Postal Service with a mandate to operate in a business-like manner and to report its finances using business-like accounting and budgeting. As a result, the Postal Service adopted an accrual accounting system, which follows generally accepted accounting principles, in which capital expenditures are charged to expense through depreciation over an asset's useful life. This provides an allocation of costs to the years in which an asset's benefits are received. A cash accounting approach, as used by the Federal Government, ignores the fact that valuable assets are acquired by the Postal Service and funded through postage rates set to recover the cost of those assets over their useful lives rather than in one year. Consistent with the purpose of the Act, the Office of Management and Budget (OMB) moved all Postal Service financial transactions except those involving appropriations, such as the revenue forgone payments for free and reduced-rate mail, from the Federal Government's budget and deficit calculations in Fiscal Year 1974. This action placed the Postal Service off-budget.

However, with the Fiscal Year 1986 Federal Budget, OMB placed the Postal Service back on-budget. As a result, the way capital expenditures are treated under the government's cash-basis system improperly made it appear that the "break-even" mandate of the Postal Service consistently adds to the Federal deficit in the near-term.

Enactment of the Budget Reconciliation Act of 1989 once again placed the Postal Service Fund off-budget. Effective with Fiscal Year 1990, receipts and disbursements of the Postal Service Fund will not be considered as part of the congressional and executive budget process and will not be taken into account in making calculations under the Balanced Budget and Emergency Deficit Control Act of 1985.

Omnibus Budget Reconciliation Act of 1987 (OBRA of 1987)

The OBRA of 1987 required the Postal Service to make payments of $350 million to the Civil Service Retirement and Disability Fund and $160 million to the Employees Health Benefits Fund in Fiscal Year 1988. Also required was a $270 million payment in 1989 to the Employees Health Benefits Fund. Funds for the 1988 and 1989 health benefit payments were derived from operating budget savings. An escrow account was also established with the U.S. Treasury into which the Postal Service deposited $465 million on October 31, 1988. The escrow was terminated and the funds returned on October 1, 1989. Excluding the temporarily escrowed funds, this legislation required Postal Service payments totalling $780 million during 1988 and 1989.

The Act also limited Postal Service capital investment commitments to $625 million in Fiscal Year 1988. Compared to the original Fiscal Year 1988 capital investment plan, these restrictions reduced Fiscal Year 1988 capital commitments by $1.736 billion for a 74 percent reduction. The Act also limited Fiscal Year 1989 capital commitments to $1.995 billion, a reduction of $635 million or 24 percent from the original plan.

Omnibus Budget Reconciliation Act of 1989 (OBRA of 1989)

The OBRA of 1989 included several provisions affecting the Postal Service's budget for 1990 and the budgets of future years.

The OBRA of 1989 placed the Postal Service Fund off budget effective in Fiscal Year 1990. It excludes postal receipts and disbursements from the totals in the President's Budget, the Congressional Budget Resolution and Gramm-Rudman-Hollings Act sequestration. Appropriations to USPS remain on-budget.

Payments to the Department of Labor for USPS workers' compensation are accelerated. Beginning in September 1990, all future payments normally due in mid-October will be made on the preceding September 30. This change resulted in two payments during Fiscal Year 1990 and will cause all subsequent payments to be advanced one fiscal year. The OBRA of 1989 made USPS liable for CSRS COLA payments to USPS annuitants (or their survivors) who retire from USPS after 9/30/86. It also made USPS liable for the employer's share of health benefits costs of survivors of former USPS employees who died after 9/30/86.

U.S. Postal Service Debt Ceiling Legislation

Legislation enacted December 12, 1989, also increased Postal Service borrowing authority. The following changes have been made to Postal Service statutory borrowing authority:

- The maximum total outstanding borrowing was increased from $10.0 billion to $12.5 billion in Fiscal Year 1991 and to $15.0 billion for Fiscal Year 1992 and each fiscal year thereafter.

- The maximum annual net increase in obligations outstanding for capital improvements was increased to $2.0 billion.

- The maximum annual net increase in obligations outstanding for operating expenses was increased to $1.0 billion.

Omnibus Budget Reconciliation Act of 1990 (OBRA of 1990)

The OBRA of 1990 affected the Postal Service as follows:

- Existing laws which required the Postal Service to fund Civil Service Retirement System (CSRS) cost-of-living adjustments (COLA) and Federal Employees Health Benefit Program (FEHBP) premiums only for postal annuitants who retired after September 30, 1986, and their survivors, were rescinded.

- Effective October 1, 1990, the Postal Service is required to fund the CSRS COLAs for postal annuitants who retired after June 30, 1971, and their survivors. Each year's liability will be prorated and the Postal Service's portion will reflect only Federal civilian employment service occurring after June 30, 1971. This liability will be amortized over 15 years at 5 percent interest.

- Effective October 1, 1990, the Postal Service is required to fund the employer's share of FEHBP insurance premiums for postal annuitants who retired after June 30, 1971, and their survivors. These costs will be apportioned and the Postal Service's share will reflect only Federal civilian employment service occurring after June 30, 1971.

- The Postal Service is liable for the retroactive CSRS COLA and FEHBP premium payments that would have been required between July 1, 1971, and September 30, 1986, if the provisions described previously had been in effect since July 1, 1971. This retroactive liability will be reduced by $780 million representing the extraordinary Postal Service payments required by the Omnibus Budget Reconciliation Act of 1987 and the remaining balance will be liquidated during FYs 1991-1995.

- Several reforms to the FEHBP are included to help control FEHBP premium increases beginning in FY 1991. Lower premiums will benefit the Postal Service by reducing its share of premium payments to the FEHBP fund.

Omnibus Budget Reconciliation Act of 1993 (OBRA of 1993)

The OBRA of 1993 obligated the Postal Service to pay interest on the retroactive assessments due under the OBRA of 1990. The OBRA 1993 assessment represents interest at 5 percent on the employer's portion of annuitant COLAs and health benefits previously paid by the U S Government that the Postal Service would have paid had the provisions of the OBRA of 1990 been in effect from July 1, 1971 through September 30, 1986. This interest assessment, totalling $1.014 billion, will be paid in three equal annual installments beginning September 30, 1996.

The following Program and Financing Statement, Statement of Revenue and Expense, and Statement of Financial Condition reflect the Postal Service Forecasts for Fiscal Years 1994 and 1995.

U. S. POSTAL SERVICE

PROGRAM AND FINANCING

(IN THOUSANDS OF DOLLARS)

ITEM	ACTUAL FY 1993	ESTIMATE FY 1994	ESTIMATE FY 1995
PROGRAM BY ACTIVITIES:			
Direct Program:			
Postal field operations	35,015,477	36,428,968	38,164,569
Transportation	3,125,292	3,291,988	3,477,821
Building occupancy	1,067,165	1,164,498	1,249,548
Supplies and services	1,170,301	1,566,262	1,654,842
Research and development	57,290	64,359	66,919
Administration and area operations	4,373,208	4,246,658	4,473,776
Interest	3,545,628	2,135,163	2,121,183
Servicewide expenses	430,782	264,282	256,654
Capital investment	1,268,569	3,140,057	2,268,343
Post Office Department Workers' Compensation	38,614	38,803	37,776
Total direct program	50,092,326	52,341,038	53,771,431
Reimbursable program	297,162	298,071	311,256
Total obligations	50,389,488	52,639,109	54,082,687
Financing:			
Unobligated balance available, start of year: Treasury balance	(521,323)	(554,317)	(554,317)
Unobligated balance available, end of year: Treasury balance	554,317	554,317	554,317
Unobligated balance restored (money orders)	(32,994)	---	---
Redemption of Debt	171,895	1,058,400	1,858,400
Budget authority (gross)	50,561,383	53,697,509	55,941,087
Budget Authority:			
Authority to borrow (indefinite)	2,239,358	4,281,660	5,349,128
Spending authority from offsetting collections	48,322,025	49,415,849	50,591,959

U. S. POSTAL SERVICE

PROGRAM AND FINANCING

(IN THOUSANDS OF DOLLARS)

ITEM	ACTUAL FY 1993	ESTIMATE FY 1994	ESTIMATE FY 1995
Relation of obligation to outlays:			
Total obligations	50,389,488	52,639,109	54,082,687
Obligated balance, start of year:			
Authority to borrow	11,067,357	13,306,715	16,988,375
Treasury balance	(417,091)	(377,391)	(372,600)
U.S. securities: Par value	4,679,216	3,026,516	815,000
Obligated balance, end of year:			
Authority to borrow	(13,306,715)	(16,988,375)	(17,487,503)
Treasury balance	377,391	372,600	367,250
U.S. securities: Par value	(3,026,516)	(815,000)	(542,000)
Outlays (gross)	49,763,130	51,164,174	53,851,209
Adjustments to budget authority and outlays:			
Deduction for offsetting collections:			
Federal funds	(1,415,885)	(1,414,394)	(1,433,216)
Interest on U. S. Securities	(404,200)	(159,200)	(48,400)
Non-Federal sources	(46,501,940)	(47,842,255)	(49,110,343)
Total, offsetting collections	(48,322,025)	(49,415,849)	(50,591,959)
Budget authority (net)	2,239,358	4,281,660	5,349,128
Outlays (net)	1,441,105	1,748,325	3,259,250

U. S. POSTAL SERVICE

STATEMENT OF REVENUE AND EXPENSE

(IN THOUSANDS OF DOLLARS)

	ACTUAL FY 1993	ESTIMATE FY 1994	ESTIMATE FY 1995 a/
REVENUE:			
Mail and Service Revenues	47,418,137	48,784,775	50,077,527
Total Appropriations	202,526	173,803	154,776
Less: POD Transitional Costs	(38,614)	(38,803)	(37,776)
Net Appropriations	163,912	135,000	117,000
TOTAL OPERATING REVENUE	47,582,049	48,919,775	50,194,527
OPERATING EXPENSES:			
Postal Field Operations	35,129,849	36,544,712	38,295,449
Transportation	3,125,292	3,291,988	3,477,821
Building Occupancy	1,043,464	1,164,498	1,249,548
Supplies and Services	1,326,654	1,685,921	1,777,048
Research and Development	57,290	64,359	66,919
Administration and Regional Operations	4,228,405	4,288,857	4,506,100
Support Services	16,591	1,472	1,516
Servicewide Expenses	306,466	301,615	283,988
SUBTOTAL	45,234,031	47,343,422	49,658,389
OTHER OPERATING EXPENSES:			
Depreciation and Amortization	920,414	1,052,276	1,217,525
Expendable Equipment & Other	38,127	27,270	28,154
SUBTOTAL	958,541	1,079,546	1,245,679
NON-OPERATING INCOME AND EXPENSE:			
Investment Income	404,200	159,200	48,400
Interest Expense - Unfunded Retirement Liabilities	(1,345,944)	(1,360,126)	(1,391,430)
Interest Expense - Borrowings	(620,243)	(585,468)	(588,184)
Imputed Interest - OBRA 1990	(69,900)	(54,400)	(34,000)
LOSS BEFORE OBRA 1993, RESTRUCTURING COSTS, AND DEBT REFINANCING PREMIUM	(242,410)	(1,343,987)	(2,674,755)
OBRA 1993 Retroactive Interest	(857,000)	---	---
Restructuring Costs	(129,000)	---	---
Debt Refinancing Premium	(536,505)	---	---
NET LOSS	(1,764,915)	(1,343,987)	(2,674,755)

a/ At current postage rate levels.

U. S. POSTAL SERVICE

STATEMENT OF FINANCIAL CONDITION

(IN THOUSANDS OF DOLLARS)

	ACTUAL FY 1992	ACTUAL FY 1993	ESTIMATE FY 1994	ESTIMATE FY 1995
ASSETS:				
Fund balance with Treasury and cash	106,205	197,325	200,000	205,000
Accounts receivable (net)	940,879	1,061,649	996,000	1,078,000
Advances and prepayments	182,966	183,383	185,000	187,000
Inventories	215,166	213,105	205,000	203,000
Investments: Federal securities	4,742,954	3,024,978	815,000	542,000
Property, plant, and equipment (net)	14,696,454	15,534,553	16,418,000	17,486,000
Other assets (net)	26,780,085	27,066,004	29,466,000	37,106,000
TOTAL ASSETS	47,664,709	47,280,997	48,285,000	56,807,000
LIABILITIES:				
Accounts payable	4,326,680	3,520,423	3,968,000	3,497,000
Interest payable	154,480	139,553	133,000	230,000
Accrued payroll and benefits	1,892,339	2,576,442	2,635,000	2,692,000
Accrued annual leave	1,310,692	1,325,220	1,475,000	1,543,000
Unearned revenue	2,551,400	2,709,542	2,800,000	2,891,000
Deposit funds	82,545	25,979	26,000	26,000
Debt issued under authority to borrow:				
Intergovernmental debt	9,903,400	9,731,505	9,273,105	12,264,705
Other debt	20,679	33,237	26,895	25,295
Actuarial liabilities	30,577,868	31,943,652	34,189,000	42,552,000
Other liabilities	125,743	323,175	151,000	153,000
TOTAL LIABILITIES	50,947,826	52,328,729	54,677,000	65,874,000
EQUITY	(3,283,117)	(5,047,732)	(6,392,000)	(9,067,000)
TOTAL LIABILITIES AND EQUITY	47,664,709	47,280,997	48,285,000	56,807,000

Postmaster General's Opening Statement

Mr. Runyon. Thank you.

With me today are Joe Caraveo, our Chief Operating Officer and Executive Vice President, and Mike Riley, our Senior Vice President and Chief Financial Officer.

FISCAL YEAR 1995 APPROPRIATIONS REQUEST

We appreciate the opportunity to discuss the Postal Service appropriation request for fiscal year 1995. The President's budget recommends that the Postal Service receive its net appropriation request of $130.93 million for fiscal year 1995. This proposal is $144,000 smaller than that received for fiscal year 1994.

We have requested, and the administration recommends, the appropriation of $92.317 million for revenue forgone for free and reduced postage rates. Of this amount, $63.317 million will reimburse the Postal Service for free mail for the blind and overseas voting.

The remaining $29 million is the first in a series of appropriations authorized to reimburse the Postal Service for shortfalls in funding.

REVENUE FORGONE REFORM IMPACT

The modest size of the revenue forgone item in this year's budget reflects the impact of last year's Revenue Forgone Reform Act. The act provided that nonprofit groups and commercial mailers will share the overhead institutional costs previously covered by the revenue forgone appropriation.

The rates on nonprofit mail matter will be phased upward over a six-year period until they cover 50 percent of the institutional cost markup charged to the corresponding commercial classes of mail. The remainder of their overhead costs will be paid for by commercial mailers.

Under the act, the Postal Service will be partially reimbursed for past revenue forgone shortfalls and the revenue lost during the phase-in period by small appropriations over 42 years.

The act also placed significant new restrictions on the commercial use of nonprofit postage rates to limit the subsidies required from regular rate postal customers. It will trim almost $20 million in annual costs by amending the preferred rate eligibility for mailings containing advertising and certain pieces sent at library rates.

We are currently preparing final regulations to implement the new restrictions on unrelated advertising and assist nonprofit mailers in complying with them. After the Treasury Postal Service Appropriations Act was passed last year, we published proposed rules in the Federal Register on December 10th, 1993, and sought comment from the mailing community.

At the request of many nonprofit mailers, we extended the comment period for an additional 30 days, and on January 28, held a town hall meeting at Postal Service headquarters to receive additional feedback on the development of the regulations.

We are currently reviewing the several hundred comments we received on this proposal and are working to prepare a final rule.

As much as possible, these regulations also apply definitions and precedents already developed by the Internal Revenue Service as to what products and services are substantially related to the purposes of an organization. We are gratified by the many helpful comments and suggestions we have received from the nonprofit mailing community, and will be incorporating a large number of them in the final rule.

In addition, we plan to issue a guide later this year that will be patterned on the one suggested by the Advertising Mail Marketing Association and the Alliance of Nonprofit Mailers at the town hall meeting.

The joint explanatory statement in the conference report containing the Revenue Forgone Reform Act urged the Postal Service to, and I quote, "Administer the new eligibility reforms in a manner that does not unduly jeopardize continued access to the postal system by reduced rate mailers who are seeking to comply with the new standards," end of quote. The conferees also suggested that the Postal Service should consider a phased in enforcement policy for the new rule and we are working to accomplish this.

TRANSITIONAL APPROPRIATION

The budget also contains our request for an appropriation of $37.776 million for fiscal year 1995. This money would be transferred to the Department of Labor to cover workers' compensation payments for former Post Office Department employees disabled by work injuries before postal reorganization.

PUBLIC SERVICE APPROPRIATION

Although an annual public service appropriation of $460 million to the Postal Service is authorized by law, we have not asked for nor received one since fiscal year 1982. Once again, we make no request for this funding for fiscal year 1995.

CUSTOMER SERVICE

However, the lack of a public service funding request should not suggest a lack of commitment to customer service and satisfaction on our part.

Customer satisfaction is the first of our 3 corporate goals and foremost in the minds of our employees. Since our last hearing, we have done a number of things to improve our performance and make it easier for our customers to use the mail.

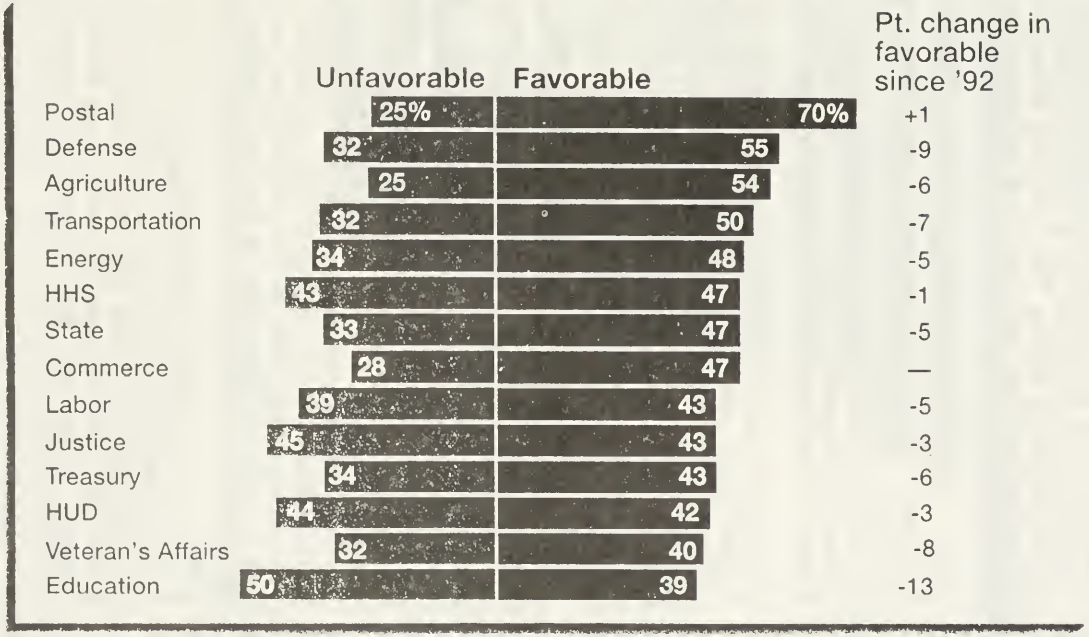
In response, America's households gave us record approval ratings in 1993, and in the first quarter of this fiscal year, our performance was up 1 percentage point over the same period in 1993.

I am pleased to say that these independent ratings are confirmed by recent Roper Reports, as shown on this chart that you see over here. The Postal Service once again ranked first with the 13 Cabinet level Federal organizations, and we were the only one to improve our score over the previous poll.

[The information follows:]

Federal Government Ratings

A recent Roper Reports survey indicates the Postal Service is one of the most highly regarded agencies among all government departments.



Roper Reports 93-5., August 1993

Mr. YATES. May I ask a question? What is that score based on?

Mr. RUNYON. On the result of a Roper poll that has talked to people who deal with these organizations and, let's see, 70 percent of the people they polled gave us a favorable rating. 25 percent gave us an unfavorable rating. The favorable rating was 1 percentage point better than last year, and that indicates that the way we are trying to reinvent the Postal Service is evidently having an effect.

Mr. YATES. I would say the Roper people weren't in my district.

Mr. RUNYON. I would disagree with that. This is a nationwide poll and it takes into account that Chicago is very important to us because it is the fourth largest revenue income for us at a little over 1 percent of the postal revenue, so I would imagine——

Mr. YATES. We can agree on one thing, Chicago is very important to us.

Mr. VISCLOSKY. I would associate myself with your——

Mr. YATES. Thank you. Sorry to interrupt, Mr. Postmaster.

Mr. RUNYON. It is okay. In our first quarter, on time delivery of overnight first class mail was essentially steady. Unfortunately, the earthquake in Los Angeles and the winter's record low temperatures and punishing storms made it difficult for us and all service organizations to operate.

Our people though showed great courage and commitment, digging their way through debris, ice, and snow. We did our best to balance the need to serve our customers with the desire to ensure the safety and well-being of our employees in these often treacherous conditions.

While service levels continue to be good nationwide, we recognize that we have some problems in particular locations. We are directing our attention toward improving service quality in these areas and across the country.

By the way, preliminary national figures for quarter two show customer satisfaction is up slightly from last quarter, and on-time delivery is down, partly due to the bad winter, and surprisingly enough, it is up in Chicago also in the last quarter. That doesn't mean anything to me because it is only 69 percent and that is not good enough.

Mr. YATES. You should get a new pollster.

Mr. RUNYON. Well, he is saying it is 69 in Chicago which is as bad as any rating in any large city. As a matter of fact, it is worse.

Mr. YATES. We would almost take that in my district.

Mr. RUNYON. By the way, from a customer satisfaction index, 89, which is where we are now, is higher than most any private corporation in the country, and there are a lot of private corporations that 69 would be nice for them to do, so it is a matter of where you are and what you are seeing and I understand that very much.

Mr. YATES. Beauty is in the eye of the beholder.

POSTAGE RATES

Mr. RUNYON. Right. We are also working to keep stamp prices low and competitive for our customers. We already deliver 40 percent of the world's mail and our 29 cent First Class rate is the lowest in the industrialized world, as you can see on this chart.

[The information follows:]

COMPARISON OF FIRST-CLASS RATES BETWEEN U.S & FOREIGN NATIONS*

At 29¢ the United States remains the lowest among these major nations.

* Based on foreign exchange rates prevailing on February 7, 1994.

Mr. RUNYON. Through the efforts of our employees, we have been able to extend our traditional three-year rate cycle and keep our rates stable for a record four years.

In preparation for the eventual increase in 1995, we have filed a new rate proposal with the Postal Rate Commission. I am pleased to report that this 10.3 percent across the board increase is the smallest ever sought by the Postal Service, 2 percentage points below the rate of inflation and half of what the mailing industry was expecting just last fall.

A measure of our proposal's economy and fairness is the strong support it has received from a wide cross-section of mailers.

By extending our rate cycle an extra year and seeking a 32 cent stamp in 1995 instead of the previously expected 35 cent stamp in 1994, we are saving postal customers $14 billion through 1996. That includes, by the way, a savings of approximately $300 million to the Federal Government in postage and other fees.

The Commission now has up to 10 months to consider the proposal before making its recommendation to our Board of Governors for implementation next year. This moderate increase, if approved, will help us continue to grow our business, which is vital to maintaining our competitiveness.

We appreciate the opportunity to discuss our appropriations request for 1995 and we remain committed to improving our performance each day and delivering quality service at a competitive price for the American people.

Thank you, Mr. Chairman.

Mr. VISCLOSKY. Mr. Runyon, thank you very much.

Chairman Yates.

CHICAGO MAIL SERVICE

Mr. YATES. Thank you, very much, Mr. Chairman, for the opportunity to come before this committee and to ask questions this morning of the Postmaster.

Mr. Postmaster, I come here with a feeling that I think was best exemplified in the very famous statement by Sir Samuel Johnson, when he was told about the second marriage of a friend, he considered it to be the triumph of hope over experience, and I have come here today, after having interrogated Postmaster Tisch, one of your predecessors, about the poor quality of Postal Service in and throughout my district in the city of Chicago.

I had spoken to another predecessor of yours, Mr. Frank, Mr. Anthony Frank, and I come here today to ask you questions because the situation has not really improved in that area of Chicago. Is this going to be an exercise in futility? I hope not.

With respect to Postmaster Frank, I asked the GAO to investigate the Postal Service in my district and this was back in 1990, and the GAO found that there were numbers of complaints that had been made about deliveries in Chicago. There was the complaint about slow delivery, not in time, daily. There was a complaint about no delivery, not for days. Mail was lost. There was a complaint about delivery delayed for days and for weeks.

For example, I was one of the victims myself because I had mailed a letter containing several checks to my son. It was delivered to him 60 days later. There is the complaint about delivery

frayed, about envelopes that are opened and about envelopes that are torn, some destroyed. There are complaints about bags of mail that are thrown into the lobbies of the high rises, and I am sure you read the report in the Chicago newspapers about the bag of mail that was being burned under the bridge in Chicago.

There are 10 years of complaints. So that my complaint now doesn't come as anything new to the Postmaster. We have been making these complaints. I have been making them directly to the Postmaster for years. It is almost an impossibility to get any kind of relief.

CHICAGO SERVICE PROBLEMS

For example, with respect to the GAO investigation. On March 15th, 1990, I am sure you have a copy of this letter in your files, Postmaster Frank wrote a letter to the GAO in which he said that—I will quote parts of that and I will be glad to make the whole letter available to you, "These problems are already well documented. Regrettably, past efforts to resolve them have not been achieved, have not achieved their intended results. As you rightly note"—this is GAO—"problems stemming from rapid population growth, facility constraints and deficient addressing practices are not corrected overnight, but I want you to know, I want you to know, a serious effort is now under way to put these problems behind us once and for all."

And Postmaster Frank in the letter talked about creating specific milestones and time frames for their completion. He would name individuals by title, names, that had primary responsibility for each milestone in the action, and others by title and name with supporting responsibility for each of the identified major action stops.

And they said regional personnel will monitor this milestone schedule and more importantly the impact of these changes with quarterly reviews with the Chicago Postmaster and her staff.

At that time it was Postmaster Norfleet. Lincoln Park is where the major number of complaints came from, and this is what Postmaster Frank said, additional short range measures being taken, additional letter carriers and supervisors have been assigned to the Lincoln Park station to ensure all routes are delivered daily. Effective March 12th, 1990, mail processing units in the Chicago post office will take up seven additional large volumes. In addition to normal street supervision, a street management team of delivery supervisors has been established to interact with customers and address teams are working with the management and residents of large apartment buildings. We have published brochures. The liaison person has been designated to work with our mail processing operations. Station management are signing off on a daily log sheet to ensure mail is properly color coded, and a number of other suggestions.

I don't have the time to go into them this morning, but I will make them available to you. The bulk mail acceptance operation at Lincoln Park will be transferred to Logan Square to relieve congestion and make more space available for carrier operations. A route adjustment package has been approved for Lincoln Park which will

consist of eight new routes, three for Graceland which will be implemented.

Then you are going to have a new carrier facility which will serve the customers in Graceland under construction and which will relieve the overcrowding at the Lincoln Park station, and a new Graceland finance station facility will be located on North Ashland Avenue.

Then long-range facilities, they said, construction of a new 23,000 square foot Rogers Park station in 1993, construction of a new 23,000 square foot post office in Skokie, Illinois. All other postal facilities in Mr. Yates' district are projected to be large enough to meet the needs of these customers for the next five years. No new facilities for Lincoln Park, which was the worst of the districts.

In his letter to Postmaster Frank, this is what GAO said: "Because of the relative frequency of complaints from Lincoln Park station customers, we focused on that station in our discussion of the complaints with local Postal Service officials." They told us that the major cause of mail delivery problems is that too much mail is being moved through too small a facility. That has been true of Lincoln Park for the last 15 years and there are no new facilities being made available in Lincoln Park.

It was said that the Graceland facility, so-called new Graceland facility, would relieve the congestion. Graceland came in. We said it was—because of the size of it, it was obsolete before it was completed and that proved to be true. Graceland was overwhelmed almost immediately. And listen to this, Mr. Postmaster, about seven years ago—this is GAO speaking—the Postal Service began looking for a site for a separate facility in the Graceland area for zip code 60657.

In 1985 according to Postal Service's central region, real estate acquisition division, the Postal Service signed a five-year lease on a vacant lot for $175,000 a year for that purpose. Nothing was built on the lot. Total lease payments of $875,000 were made. After signing the lease, the Postal Service decided the lot was unsuitable because it had been used as a garbage disposal site.

And after evaluating over 100 other sites, the Postal Service has decided to convert the site of a vehicle maintenance facility into a needed carrier station and construction of the Graceland facility was begun, scheduled to be completed in October 1990.

CONGRESSIONAL OVERSIGHT

How do I get your attention? How does a Member of Congress to whom constituents turn get the attention of the Postmaster General? I tried to get the attention of Postmaster Tisch and he said, you are right, Mr. Yates, your complaints are right. I tried to get the attention of Mr. Frank. Mr. Frank said the complaints were justified. Then it died after Mr. Frank left office.

Now, I am trying to get your attention. Under law, in spite of what our constituents think, Members of Congress have no power at all to require you to do anything. Can I require you to put additional carriers in any station? I can't, can I?

Mr. RUNYON. I am not aware that you can.

Mr. YATES. The law was changed in 1970 to deliberately avoid any possible political interference with the operation of the Postal

Service. The Office of the Postmaster General was rescinded. There is no Postmaster General in the Cabinet now. I for one think that mail service is important enough to justify having you as Postmaster General in the Cabinet. Mail service in America deserves that.

We have been writing letters to the Postmaster day after day after day as scores of complaint letters come in. The latest incident, which I think you will appreciate, while I shouldn't bring politics into this discussion, it has some bearing on the problem. This has been a tough winter and in order to avoid the possibility that weather conditions would make it impossible to fly to Chicago to vote on March 15th, my wife and I applied for absentee ballots.

The Board of Election Commissioners in Chicago mailed the absentee ballots to us on March 8th, or March 10th. I came back to Washington the day after the primary election on March 15th. I arrived on March 16th and on that date the primary ballots were delivered to us in Washington, first class mail. It shouldn't take that long to get to Washington.

I have complaints about your priorities. Priority mail has a priority of 30 days according to people who have used it in Chicago and have spoken to me about priority mail. I find myself using Federal Express more and more when I want very important papers delivered to my district office in Chicago. It gets there the next day. Priority mail doesn't.

How do I make an impact on you? How do I get you to build a new facility in Chicago that will accommodate the increases in mail about which you spoke? In the old days before it was changed, as a Member of the Appropriations Committee, I could offer an amendment for construction of a postal facility in my district which the Postal Service would then put its carriers in and its delivery people in to deliver the mail.

I can't do that now. I can't come to this committee and ask for an appropriation for the construction of a postal facility. I am getting complaints now from new parts of my district, the suburbs. They are making the same complaints that I have been making. In addition, there are additional comments about the employees not being courteous, about calling up the stations and not being able to break through to the stations. The lines are busy, or nobody answers the phones.

In the instances where they are able to break through on the telephone, they are told, well, there is nothing we can do about that now.

You sit in Washington here. You went to Chicago on Wednesday. You heard some of these complaints yourself. Are you impressed? Is there anything you can do? What can you do to take care of a situation like this? Mr. Tisch said he would do it. Mr. Frank said he would do it and now, Mr. Runyon, I come to you and ask you, after 10 years, what can you do to alleviate the conditions in Chicago?

CHICAGO SERVICE IMPROVEMENT INITIATIVE

Mr. RUNYON. We are committed to fix the situation in Chicago. I will say that to you first thing. Now, you can rely on past experi-

ence and pass that by if you want to, but that is a commitment I am making.

Mr. YATES. What is your commitment?

Mr. RUNYON. To fix the service in Chicago.

Mr. YATES. Okay, that is in the record.

Mr. RUNYON. Yes.

Mr. YATES. Okay.

Mr. RUNYON. And I said that in Chicago at the Finance Committee meeting also that I attended for two-and-a-half hours Monday night. Joe went up there Wednesday and stayed there.

Mr. YATES. Joe, that is Mr. Caraveo for the record.

Mr. RUNYON. Mr. Caraveo went there on Wednesday and stayed there through Monday, and looked at all of the situations that are there. Now, Mr. Caraveo is quite competent in the Postal Service. He has been here—43 years, Joe? He has been in the Postal Service 43 years.

Mr. YATES. He was under the old system.

Mr. RUNYON. That is right. He was under the old system.

Mr. YATES. When we could get something done.

Mr. RUNYON. Hopefully you can get something done now.

Mr. YATES. Yes, except you are insulated and isolated from us except for the opportunity that this affords to come and shake hands with you over the table and voice our complaints to you.

I hope I have, with my limited amount of eloquence, been able to transmit to you the quality, the poor quality of the service in our district.

Mr. RUNYON. I think you have spoken very eloquently about what the needs are and what you have been promised in the past, and you have told me some things that I didn't know, and I will go back and be very glad to have your

notes.

Mr. YATES. I will be glad to make available to you any of the papers that I have and from which I have quoted.

POSTMASTER GENERAL'S VISIT TO CHICAGO

Mr. RUNYON. I would like to have those so that I can go back and try to find out a little bit about what has been done. But the fact is, we need to fix it now. We can't continue to keep going back and say, why didn't that happen.

The fact is, it didn't happen, and I accept that and I accept the fact that the service there is not what it should be. It needs to be improved. We will be looking at facilities.

When I was in Chicago Monday, I did several things. One of the things that I did was to visit with employees at the Chicago Post Office and there were people from all around Chicago from outlying stations, and I heard some things from them that have to be fixed also, some working conditions that they have at their local station that impact them differently than what you are talking about, but on the other hand, it contributes to morale and how they feel about the Postal Service and about what we are doing.

Mr. YATES. May I just interrupt you for just a second? I shouldn't interrupt you because you are making promises to me. I asked you what can we do to do it? I have concluded that there is only one

thing I can do, I think, to try to persuade you if that becomes necessary to do what you are promising to do now.

The basic legislation, as Joe will tell you, provides that you have to deliver mail to my constituents in an economic and efficient manner at reasonable rates. I contend that you are not following the law. You are not delivering mail efficiently, courteously, on time.

If that is true, do I have a right to go to Attorney General Reno and ask her to sue you to make you do it?

Mr. RUNYON. I would have to ask my general counsel about that.

Mr. YATES. I don't know the answer to that either, but to me that is the only alternative that I have is to have somebody require you to meet the standards of the law. I can't require you. I don't know who can require you. It may be that the Attorney General is the only one, if she sees that the law does give me standing to bring this suit or my constituents standing to bring suit, particularly a constituent whose mail has been delayed, sending him the bills from his credit service that requires him then as a result to pay interest, an advanced fee because it hasn't been delivered on time.

She is the only avenue that I can think of at the present time that would permit me to do it, and I don't know whether I can, and that will require some legal research. I would like to know what the attitude of your counsel is on that possibility. But you go ahead. I didn't mean to interrupt you.

[The information follows:]

Does the Attorney General have the authority to sue the Postal Service over the failure to provide effective, efficient mail service?

The Postal Reorganization Act sets forth a number of general duties for the Postal Service to perform as it carries out its functions. Among these is the duty to "provide adequate and efficient postal services at fair and reasonable rates and fees." 39 U.S.C. 403(a). These legislative directions provide guidance to the Postal Service on how it should operate. They do not create a basis for a lawsuit to force the Postal Service to provide a specific level of service in a specific situation.

The Postal Service is taking action to ensure that customers in Chicago receive the level of service that we are charged to provide. We have asked you and the customers of Chicago to work with us to resolve the service problems you have identified. We believe that this approach, not litigation, is the path to a successful result.

Mr. RUNYON. I am trying to remember where I was. I went—as I say, I went to Chicago on Monday. I visited one of our stations, the Lakeview station.

Mr. YATES. You get to Lincoln Park?

Mr. RUNYON. I didn't realize Lincoln Park was uppermost in your mind.

Mr. YATES. Lincoln Park is no longer in my district really, but because I have been doing this for years, people from Lincoln Park still write to me, and I am advancing their causes as well as those who live in Lakeview and in Uptown and in the other areas that are in my district, including the suburbs.

Yes, go ahead.

Mr. RUNYON. So I did go there. I talked to employees. I did meet with Senator Simon and Senator Carol Moseley-Braun at the Lakeview station and talked to them about some of their concerns. I did—we did have a press conference there which was a very interesting press conference held on the workroom floor.

We then talked to various employees so that the media could be a part of that so they heard what our employees had to say. I then

went with Senator Simon to the Chicago Club to attend a meeting of mid-America leaders where he was to speak, and he asked me to come and explain some things about the Chicago postal service, and so I did that and took questions from those people who were there.

I then met with our union leaders and our association leaders from Chicago to get their input, comments, and questions. Then I met with employees from around Chicago, not just from one post office but from several of them, probably 100 employees who came to the Chicago office, and we talked to them and I took questions from them, and they made comments to me about how they felt about what was happening in Chicago.

I then met with Ali Altman, who was present at Alderman Burke's office.

Mr. YATES. Alderman Smith, I assume, Marianne Smith.

Mr. RUNYON. Marianne Smith was there, yes, and she had some comments and she had to leave, but there were other aldermen there. I then met with the Chicago Sun Times editorial board.

Mr. YATES. I didn't know that.

Mr. RUNYON. To get their input and comments and questions. I met with them for about an-hour-and-a-half, I think. Then I went to the town hall meeting. It is the first town hall meeting I have been to in Chicago. It was a very interesting meeting. I heard complaints for two-and-a-half hours and——

Mr. YATES. I have heard them for 10 years.

Mr. RUNYON. I am sure you have. I am sure you have, and I am sure that you heard some of the same complaints that I have heard.

Mr. YATES. I am sure I did.

CHICAGO TASK FORCE

Mr. RUNYON. But anyhow, I did that. Today, we are getting 21 managers from around the country to go to Chicago and work with the stations that are having the major problems and we will work them around to where they get to all the stations in Chicago before we stop.

They are not there to really assess the problem and determine what needs to be done. They are there to do something, starting now.

Mr. YATES. What do you mean by a manager? Twenty-one managers. Manager of what?

Mr. RUNYON. These are people who are postmasters and office managers that work in that same type of a job somewhere else in the country. They are capable of understanding what needs to be done and how to do it in that environment. When I say that environment, I am talking about a post office or a station.

Mr. YATES. These are members of the Postal Service?

Mr. RUNYON. Yes, sir.

Mr. YATES. Will we have the same result that we had when you had SIT teams reviewing the situation? You had SIT teams appointed by Postmaster Mason. You know what happened there. May I read to you for a moment here what happened?

Mr. RUNYON. Sure.

Mr. YATES. As you know, an SIT team is used in many postal districts as a crack trouble-shooting group to pursue complaints from customers, survey stations that appear to be the persistent targets of a large number of customer complaints.

The Postmaster appointed them, these SIT teams, and they came back and they reported to the Postmaster about deplorable conditions in Chicago, and then in mid-October, it is my understanding the Postmaster, Mr. Mason, called the team into one of his conference rooms and told them, one, he had been getting an increased number of complaints from station managers about the nature of the SIT reports.

He said they were too harsh, they were too critical. And, two, he wanted the SIT members to ease up, to work more with station managers instead of being so critical. When one member of the press asked the Postmaster why he was doing this, he said he didn't remember whether he had done that.

So your station managers are members of your Postal Service. Now, are they going to give you an objective report or are they going to be a little more sympathetic as your Postmaster General was? I want you to have that much in mind as to what happened recently in Chicago with SIT teams that were supervising the situation and said, yes, the complaints are valid. Okay.

Mr. RUNYON. Yes, I am aware of the SIT team that was there.

Mr. YATES. And they are now being disbursed by the Postmaster?

Mr. RUNYON. Yes.

Mr. YATES. That doesn't make sense to me. I hope it doesn't to you, because if there are investigators, the impression I have and the public has is they are being disbursed because they were critical of conditions in the post office.

Mr. RUNYON. Well, the group we are putting in now is going in there to make sure that changes take place, not to find what the problems are, but to fix the problems. That is what this group is about, and it is a little different than to assess what is the problem. These people are going to walk into a station and work with the existing manager to straighten that up.

I think at this point I would like for Joe to talk about this a little bit. Joe, my chief operating officer.

Mr. YATES. I will be glad to talk to Joe in one minute. Suppose your team of station managers comes back and says what GAO said, namely that facilities are too small to handle the amount of mail that is there. Suppose the team says you need a new facility there. Will you give us a new facility?

Mr. RUNYON. The team is going in there to fix the problem and what that takes is what they will do. Now, it may mean that some routes would move from one unit to another unit where there is more space.

If it is necessary that we have additional facilities, then we will fix the facilities. We will do what we need to do.

CHICAGO FACILITIES

Mr. YATES. Well, we know you need a new facility in Skokie and the Postal Service has been promising that for a number of years. It was supposed to have been finished, I think, in 1996. I wish you would look into that.

Niles had complaints and they asked me to see whether I could persuade you to have a new postal area number, and you gave it to them, and their complaints pretty well ceased. Am I taking too much time?

Mr. VISCLOSKY. No, Mr. Chairman.

Mr. YATES. But it was determined that Skokie needed a new facility and it was agreed that they should have one. I assume that Joe would go ahead and put it in. But go ahead, Joe.

Mr. RUNYON. Well, okay.

Mr. CARAVEO. I did visit Lincoln Park and Don Clark is the station manager there. I also visited——

Mr. YATES. You said Don Clark.

Mr. CARAVEO. Yes. That is the name of the station manager. I also went out to Graceland. But, first of all, let me say, Lincoln Park appeared to me that it was badly overcrowded.

I understand that they took about 40 routes out and put them in Graceland, and I don't know how they could have been in Lincoln Park before because Lincoln Park as it is now is overcrowded. What we are going to do is look——

Mr. YATES. And Graceland is too.

Mr. CARAVEO. Graceland is in a little bit better shape. They have sufficient space I think to do the job. They did do some moving around. They moved the parcel post operation.

I think Graceland is going to be in pretty good shape. My main concern right now is Lincoln Park. As far as the facility is concerned, we are going to have to assess the amount of volume that the carriers are taking out on their routes and make sure that all of the appropriate mechanics are in place to see that the carriers are doing the right things at the right time.

CHICAGO TASK FORCE

This task force that Mr. Runyon talked to you about, this team that we have going in is going to be headed by somebody from Washington. The station managers and the postmasters from throughout the country, are not going to be reporting to the Postmaster at Chicago.

The service improvement team reported to the local people. We hope to get a more objective look and better recommendations from a group of managers from a different area. But we are going to be working with the Chicago people.

Their job is to stay there until it is either fixed or procedures are in place that satisfy us that correct decisions have been made as to what is to occur. They are not going to sit there and write a report and leave.

Mr. YATES. No matter how long it takes?

Mr. CARAVEO. Whatever it takes. We are going to leave them there or have somebody else there to follow up, but they are going to be part of this team.

Mr. YATES. This is throughout the ninth congressional district?

Mr. CARAVEO. This is true in Chicago and we will spread it out.

Mr. YATES. It is not only the lake front. It is also the suburbs that we have been getting complaints from, and I think perhaps while you were in Lakeview and the other areas, you weren't aware of what the situation was in the suburbs.

I would ask you all to include the suburbs in your study.

Mr. CARAVEO. I went to Uptown—no, I didn't go to Skokie. I went to Uptown, Rogers Park. I went to Dearborn—I stayed in Chicago under Mason's area but——

Mr. YATES. But the suburbs are part of the problem area. I hope that you will also include them.

Mr. CARAVEO. We will expand it based on what the team sees and the quality of the mail that is provided there.

Mr. YATES. Take my word for it that complaints are coming in from the suburbs. I am getting those complaints and I will forward them to you. The point I am trying to make is that I hope you are not limiting your survey to this area only if indeed the suburbs also require attention.

Mr. CARAVEO. We will expand it wherever it indicates is necessary.

Mr. YATES. Okay. It may be necessary in Evanston and it may be necessary in Skokie and some of those other areas. So just make a note of it, and if you can go to those areas, I am sure they will include that in them.

Mr. CARAVEO. I will check on Skokie as soon as I get back.

Mr. YATES. Thank you, very much. Does that conclude your statement, Mr. Caraveo?

Mr. CARAVEO. Yes, sir.

Mr. YATES. Thank you very much, I appreciate that. Mr. Postmaster, I don't know whether you want to say anything else. I have made my pitch. You have promised a remedy. When are you going to put the station managers in there?

Mr. CARAVEO. They are in there today. They are getting in there today.

Mr. YATES. Are they going to stay in there from today on?

Mr. CARAVEO. Yes. For instance, we have a Postmaster from Columbia, South Carolina, the Postmaster of Milwaukee, and an operations analyst from the Hawkeye District in Iowa. We have people from all over the country who are delivery specialists and overall managers.

They are not confined to just delivery, because we are concerned about the retail. We are concerned about all the interactions we have with customers there. We are going to put a 1–800 number there. We are going to look at a lot of things that have come to our attention.

Mr. YATES. I don't know how large Hawkeye, Iowa is. I suspect it isn't as large as my district in Chicago. Will they be aware of the unique problems an overcrowded urban community has?

Mr. CARAVEO. We want to make sure we have people experienced in delivering to high rises, and bring people with different experiences to bear, but overall it is going to be run by somebody from right here in headquarters, but he is not going to be in headquarters. They are going to be in Chicago.

Mr. YATES. I agree with that. I am grateful that you are moving some of your supervisory help to Chicago in order to deal with the problem. I think that has to be done.

CHICAGO INTERIM REPORT

Mr. VISCLOSKY. Mr. Chairman, if I might interject for a moment. I have always thought setting some time frames and time goals are very important in these types of circumstances.

I might suggest, if the gentlemen would agree that 90 days from today's date, that the subcommittee receive a communication in the form of a letter or memorandum relative to——

Mr. RUNYON. I would be glad to.

Mr. YATES. It may be an interim report.

Mr. RUNYON. Of course it is. I guarantee you it will be an interim report because this situation in Chicago did not happen in 90 days. This didn't happen in 90 days.

Mr. VISCLOSKY. So we will concur with the gentleman from Illinois so that we don't have to wait another 12 months to see how——

CHICAGO MAIL SERVICE

Mr. RUNYON. I agree with that. But this situation—you know, if you want to go back to 1966 when it was not under the present kind of a system.

Mr. YATES. It was under Joe at that time.

Mr. RUNYON. It was under you, sir. You were part of the responsibility at that time, right, and the Chicago Post Office totally shut down on the 17th of December and was down for about 14 days and no mail was delivered.

Mr. YATES. I know.

Mr. RUNYON. And it is not that bad today. There are people who say it is almost that bad, but the fact—the point I am trying to make is, this didn't happen overnight in Chicago. It didn't happen overnight in the Postal Service.

We have got to change the culture of the employees of the Postal Service, the management, employees, everybody that works there, and that is over 700,000 people. That is our task, and it is not going to happen overnight.

Experts and management consultants say it will take seven years to change that. We are not going to wait seven years to fix Chicago.

Mr. YATES. I have your assurance that this team is going to be there until this problem is solved, and I accept that. I want to know whether my staff in Chicago, for example, can call members of that team or is there somebody we can call?

Mr. RUNYON. Well, they can talk to anyone in the team they want to. The leader of the team would be the person they probably should contact first.

Mr. YATES. Where will they find them?

Mr. RUNYON. We will have to give a number to you. They are there today. They will be in Chicago.

Mr. YATES. Have them call my office in Chicago and establish a liaison so we know if we have any questions or comments, we can communicate with them.

Mr. RUNYON. Right.

Mr. YATES. I would appreciate that.

Mr. RUNYON. And if you feel that the situation is not developing the way you think it should, then I would like to know about that.

Mr. YATES. I will call Mr. Runyon, or Joe, or your colleague whose title I don't know.

Mr. RUNYON. He is our chief financial officer who is sitting here wondering what all this is going to cost.

Mr. YATES. As a matter of fact, I am too, but I have an assurance that you are going to improve it.

Mr. VISCLOSKY. Before the Chairman leaves, I would express on behalf of Mr. Hoyer and all of the Members of the committee that while all Members on both sides of the aisle are always looking forward for the opportunity and courtesy to sit with other panels within the full Appropriations Committee, it remains an extraordinary opportunity and event.

Mr. Yates's appearance with us today is extraordinary because his complaints are. Mr. Hoyer, all of us today, all of the Members of the committee take those complaints very seriously.

I might add parenthetically, as a Representative of Gary, Indiana, considered by Mr. Rostenkowski as part of the Chicago delegation, that without being light about it, I also believe that what happens in Chicago has a direct impact on my district, whatever it might be.

And so what does happen for good or ill in the city of Chicago is very important to this Member very personally.

So we would expect an interim report on the theory that we can continue to follow up throughout the year to make sure that the situation is resolved to everyone's satisfaction.

Mr. YATES. Good, thank you. I want to thank the Postmaster General and Joe and the finance chairman there. I want to thank Mr. Lightfoot and the other Members of the committee for the opportunity to come in here and to meet with you and have this kind of a dialogue with you.

I look forward to our mutual cooperation in the near future and constant attention to the correction of these complaints.

Thank you very, very much.

Mr. RUNYON. Thank you, Mr. Chairman.

Mr. YATES. I have got to go to my own committee. Thank you, very much.

Mr. VISCLOSKY. Mr. Lightfoot, Mr. Istook, I appreciate your patience.

Mr. Lightfoot, I recognize you for your opening statement as well as any questions you might have.

MR. LIGHTFOOTS OPENING STATEMENT

Mr. LIGHTFOOT. Thank you, Mr. Chairman.

Mr. Runyon, welcome, sir. Maybe to tag on to what Mr. Yates was talking about, any time you talk about a rate increase, I suspect that the discomfort level goes up a little with people who may have a complaint that they want to lodge.

In our area, it seems that the complaints that we receive have to do a lot more with policy changes and so on than it does with their local carriers or local postmasters. For the most part, in Iowa at least, or my area, the local postmasters and local carriers are thought well of and do a good job, but the complaints we get tend

to be with some of the policy changes, some of the things that you have had to do in order to keep the post office operating.

I brought along a few samples today. I am going to deliver a little mail if you don't mind for you to take with you to look some of these things over. It kind of reminds me of the old story, Peter, I don't know whether I should tell this or not, but back in the old days when they were settling our country, it seems that the wagon train had run out of food and they sent the scout out. After a couple days, he returned and said, there is good news and bad news. They said, what is the bad news? He said, well, I went 50 miles in every direction. The only thing I could find out there was buffalo chips. And the wagon master says, good heavens, if that is the bad news, what would the good news be? He says, well, there is plenty of them.

Hopefully that is not what we are getting into with some of the things with the Postal Service.

Some good news. I just sent a letter or mailed a ticket to my son who is in school to come home for the Easter break. Mailed it out here Monday afternoon. He got it Tuesday. So between here and Wisconsin, the mail worked. Also I got a phone call yesterday from a light company. They asked why I had not paid my bill at home, and we came to find out that the local Postmaster brought some envelope over which had been caught in some machinery and had chewed the check up. So we are issuing a new check for the light company. But those things are going to happen.

DECEPTIVE MAILING

I would like to give you is a few items here. First of all, it has nothing to do with your operation other than, I think, maybe you need to look at this and see if this is a legal document. If it is not postal fraud, it certainly borders on it. This is a mailing that my folks got from one of these outfits trying to raise money for social security, and it says it was mailed by the Eagle Courier Service. It is a nonprofit organization. It says that Congress is looting social security, has no intentions of paying the money back.

I am sure they had some sharp lawyers put that together and it is probably right on the edge of stepping across the line, but I would really like to have the Postal Inspectors take a look at that and see if it is legitimate and it complies with postal regulations, because it is a real scare piece and between unscrupulous preachers and some of these fund-raisers, they certainly prey on people that are senior citizens.

Mr. RUNYON. We will certainly have this checked into.

DELIVERY SERVICE PROBLEMS

Mr. LIGHTFOOT. Also, since we have you here, this is some correspondence about consolidation of several routes in Deep River, Iowa. You don't need to respond to it now, but if you would look that over and some of those folks aren't happy with the way that has been resolved at this point, and give us your opinion on that, I would appreciate it. Then here is a letter from some folks who are really good friends of mine that have quit using the post office in Corning, Iowa because it takes about seven days now to get their mail 60 miles away to their bank. In fact it took eight days for that

letter to get from Corning to here. We would appreciate you looking at that.

And the final thing to put in your mailbag, and, here, I will even give you the mailbag to put it in if you like, is a letter from a constituent who talks about getting a letter, took seven days to go from Clarinda to Shenandoah, Iowa. It is a distance of about 18 miles, and like I say, I live in Shenandoah. We have—and our Postmaster and the folks there have basically done a pretty good job.

That may be an anomaly, but nevertheless it happens. I think probably what contributes to it is mail from our town, to go 15 miles down the road has to go 60 miles to Omaha to be sorted and come back, and I think that may have contributed to it.

And finally, and I hope you don't get a hernia with all this stuff, but here is a box of goodies that went to a postal patron in Arlington, Virginia, and we are told this is typically the condition that the mail is in when it gets to this individual's residence and it must be a pretty common occurrence in their neighborhood as a whole.

There is some presorted first class mail in there, some regular first class, nonbulk, an advertisement or I guess the common denominator is junk mail as well.

Mr. RUNYON. Advertising, that is what we call it.

Mr. LIGHTFOOT. I will go with that. That is fine with me, sir, and from the standpoint of the people that send the mail, I am sure they expect it to get there in as good a condition as possible.

With that type of service, and I suspect that is probably more inherent to an urban setting than it is a rural setting because a lot of times the boxes are small. I am out in the country. We have got a big mailbox out in the farm.

What are your thoughts about that sort of thing? How do you deal with it? I know you get tons of that stuff because in my apartment where I live here, I come home and sometimes it is just packed full of, fliers and coupons from the grocery store and that sort of thing.

Mr. RUNYON. It shouldn't be delivered like this. To say it should be is wrong. There are some extenuating circumstances with some people. We deliver sometimes to addresses where there are four people who work and live in that place and they have a small mailbox. With the rate of mail coming in now, advertising mail, it is difficult to get it in the box, so there are some problems like that and we need to figure out how do we deal with that.

Do we require people to have a larger box? I don't know that we can do that. But on the other hand, we can't get the mail in the box. So we have got those kinds of problems and that is a very serious problem and we need to deal with it, but people shouldn't get their mail like this.

I live in Virginia myself. I live in Rosslyn, Virginia, and I am amazed at the lack of mail I get. I have—Advo knows where I am. There is one department store that knows where I am. Of course the power company knows where I am and the cable TV knows where I am.

Mr. LIGHTFOOT. The phone company probably finds you too.

Mr. RUNYON. The phone company finds me. Those are the three pieces of First Class Mail I get a month. The rest is advertising

mail and I don't get near the volume that I thought I would get. Just by having utilities, I thought I would get more mail. I am surprised.

This is about the third time I have said that and every time I say it, I figure that everybody will now know to send me mail.

Now, at home it is a different deal. I have the largest mailbox that you can have, and I do that because I get Express Mail and the Express Mailboxes, I can get two of them plus all the rest of the mail in my mailbox.

You wouldn't believe that we had an official box that we could do that, but we do have. So this is a problem. It shouldn't be delivered like this to answer your question, but we need to look at this to see what is the cause of it and what we can do to fix it.

Mr. LIGHTFOOT. You and I probably have similar experiences. Where I live in Iowa, I have got a big box, and of course in a rural setting, if a package or something comes at Christmas time or what have you and it won't fit, the mailman just drives up the driveway and puts it in the garage and we don't worry about it. Or if there is a car sitting in the driveway, just throw it in the car and leave it. It is a little different area out there than it is here.

The apartment I live in here, I am like you, all I get is the utility bill here, but I got a couple other pieces of first class mail, and there is nothing you can do about it because it is people using your service, but on certain days of the week, the apartment manager puts a huge bin down by the mailboxes and it is just totally filled with a lot of that advertisement that is there and I don't know how you get around that.

I guess when people decide you don't read that stuff, maybe they will quit sending it.

ADVERTISING MAIL

Mr. RUNYON. That is true, but the facts are that of advertising in mail, 80 percent of it gets read and that is why they send it.

Mr. LIGHTFOOT. That is why we use the mail to raise money.

Mr. RUNYON. Right. Because it is a target audience and you know it is going to go to that address and it is very important.

Mr. VISCLOSKY. 80 percent of the advertising mail is read?

Mr. RUNYON. Yes. That is why people use it.

Mr. LIGHTFOOT. That is interesting. Got an idea there Peter?

Mr. RUNYON. Well, we know these numbers because we are very interested in trying to build more advertising mail and direct mail. I mean, we are in the business of selling that, you see, and that is why, when I get what I get at home, my wife has a different name than I have because she is in a business, and we both get a lot of the same stuff, but I don't write these companies and tell them not to send it to me because I am making money every time we get it, so I let them keep shipping it to me. I just read one of them.

Mr. LIGHTFOOT. So you recommend to us not to write the companies and tell them not to send it because you need the revenue?

Mr. RUNYON. It gives us revenue, yes.

SAFETY POLICY

Mr. LIGHTFOOT. Our part for the Postal Service. One, just a policy kind of question on mail carriers. Do you have any kind of policy as far as the carriers wearing head phones with radios and so on playing? There is some concern of the safety factor, not hearing a car come up when they cross the street, that sort of thing. I notice a lot of carriers do that.

Mr. CARAVEO. I don't know if we have a policy on that when they are walking. They are not supposed to have it on when they are driving. It is a safety factor.

Mr. LIGHTFOOT. So when they are walking it is okay?

Mr. CARAVEO. I don't know that it is okay. I will get that information for you.

[The information follows:]

The Postal Service has had a policy concerning employees' use of radio or tape cassette headphones for over ten years. Generally, the use of headphones is prohibited, although a limited exception applies to letter sorting machine operators. The policy is based on safety considerations as the use of headphones can draw an employee's concentration from potentially hazardous conditions. In short, the prohibition applies to letter carriers whether they are walking or driving.

EXPRESS MAIL

Mr. LIGHTFOOT. All right. A couple of quick questions as it deals with the air carriers. Have the new express air hub contracts generated any significant new volumes of express mail?

Mr. CARAVEO. I think it has. Our Express Mail volume had been declining for a number of quarters and all of a sudden—and I don't know that it is just specifically because of the hub, but service has gotten—the volume has picked up since we opened—since we went into this new contract where we have expanded the hub, but I don't know that there is a direct relationship, because not even half of our Express Mail goes through that hub.

Mr. RUNYON. When we put the hub in, we increased our lift capacity by 37 percent which means that we could handle more through there, and that has helped us somewhat in increasing that volume. Our Priority Mail volume is up a considerable amount also.

Mr. LIGHTFOOT. Then that leads to the next question. Is the express mail network essential to priority mail?

Mr. RUNYON. No. The Express Mail network is—I believe—I will get you the exact number for the record, but I think it is roughly 60 percent of our Express Mail goes through there.

The other portion of course goes through regular airlines or is delivered by truck overnight. You see, a lot of Express Mail that goes from one location to another location in the proximity of driving ranges is not handled by air that way. It is not necessarily air express.

Mr. LIGHTFOOT. So some of that mail is and could be handled at a cheaper rate by going commercial?

Mr. RUNYON. Well, we are making sure that it gets delivered overnight. You want to say something here?

Mr. RILEY. I did want to make the point about the trucks. A lot of the mail does go by truck and that is cheaper. Express Mail,

when it can, goes through the hub. In those places we don't have the reach to get it, it goes by air.

It goes commercial and that is the cause of the two day service as opposed to the overnight service in a number of cases.

Now, there are some cases where we don't meet our commitment, but if things work as they are supposed to, and it needs to go by air, it goes through the hub because we can't make the commitment if we go by commercial air in the vast majority of cases.

Mr. RUNYON. There was a comment made earlier about using Express—Fed Ex, and I think we should say that Fed Ex now has a contract with the Federal Government to deliver mail at a much cheaper rate than we can do. So most mail out of the offices in Washington goes by Fed Ex as opposed to Express Mail.

Mr. LIGHTFOOT. As far as the express mail network is concerned, how much, if any, of that mail transported by that network is not express mail?

Mr. RUNYON. By that network, about 7 percent of our priority mail goes over that network.

Mr. LIGHTFOOT. 7 percent?

Mr. RUNYON. Yes.

Mr. LIGHTFOOT. Is that pretty much like it was last year?

Mr. RUNYON. Yes. It is not—it is not growing.

PRIORITY MAIL

Mr. LIGHTFOOT. Advertising on priority mail. That has apparently been very effective in keeping some growth there, or giving you some substantial growth. If this trend would continue, are you planning on expanding the capacity of express mail to accommodate that new volume or what are your plans?

Mr. RUNYON. We are looking at—no, not expanding Express Mail. We are looking at ways to move Priority Mail more effectively so that we can get all Priority Mail delivered in two or three days.

There are certain areas in priority mail that we can't get to in two days and when people give us priority mail, our clerks are supposed to explain to them where it can get to in two days, and where it takes three.

We stopped our advertising of the two, two, two, you know, two days, two pounds, at $2.90. We don't do that anymore. So the fact is that we—and we also are looking, you know, how do we do this when the rate goes up. Because the rate on that mail is going to go up from $2.90 to $3.20 was our recommendation to the Postal Rate Committee.

SECOND-CLASS MAIL RATES

Mr. LIGHTFOOT. I have got some other questions I will submit for the record, Peter. One question that you may want to address later, the small rural newspapers are very concerned over—they feel like that, what is it, second class takes a considerably bigger jump than some of the other rates, and I guess they would like an explanation of the justification for that, and if anything can be done to keep that in place, more in line with the overall increase.

Mr. RUNYON. We are looking at that now. The simple explanation for that is that in 1990 when the rates were set, they fully met their attributable cost. At the present time, they are meeting

less than 80 percent of their attributable cost, and one of the rules is that you have to meet your attributable cost, and getting them to their attributable cost added a considerable amount to their—the price of mail, and the rates are proposed to go up 34 percent as opposed to 10.3.

I met with these mailers. The day after our rate increase request, I had the fortunate opportunity of speaking to the whole group here in Washington and I took questions from them and we had a technical conference that afternoon where we were trying to get results and find out why the costs went up. And we are still working with them on that.

The fact is though, the second-class mail, which is where we are talking about, I think it is not-for-profit and in-county newspapers——

Mr. LIGHTFOOT. Right.

Mr. RUNYON [continuing]. Is where the problem exists, and that volume has dropped, and so as the volume drops, then the attributable cost, I think, goes up. But we are working with them from a technical standpoint to understand what we can do, what we can do to make it right for them.

Mr. LIGHTFOOT. I appreciate that.

Mr. RUNYON. We are certainly not attacking them and choosing—you know, picking them out to increase their rates. That is not what we are trying to do.

Mr. LIGHTFOOT. And from their perspective, a lot of these small newspapers are hanging on by the fingernails to stay in business anyway and in our part of the country at least, what maybe used to be a small county paper that had a concentration in the county, now it may be going over a couple of county lines with its customers, so they kind of get in a Catch 22 thing there.

Mr. RUNYON. I am not all that familiar with the rates, but they call it in-county rate, so I assume if that goes out of that county into another county, it is another rate.

Another thing that got to them somewhat, got to all not-for-profits, is there was a 4 percent increase that came about through the Revenue Forgone Reform law that was passed. It will raise rates over a period of six years. It goes up a certain amount each year, and I think that was about 4 percent in the case of those newspapers.

Mr. LIGHTFOOT. Some of these papers of course, they are for profit, which puts them in the other category, and again, you cross the county line, the rate goes up and they have got some problems.

Mr. RUNYON. Right.

Mr. LIGHTFOOT. I appreciate you working with them on it.

Mr. RUNYON. Thank you.

Mr. VISCLOSKY. Thank you, very much.

We have a vote in progress, so I will recess the committee for a moment or two. Mr. Istook, I will recognize you upon my return.

[Recess.]

Mr. VISCLOSKY. Mr. Istook.

Mr. ISTOOK. Thank you, Mr. Chairman.

Mr. Runyon, good to see you again.

Mr. RUNYON. Good to see you.

Mr. ISTOOK. I am sorry to have to take you away from the press there. I know you were enjoying that.

Mr. RUNYON. Well, it is okay. We deal with everybody that comes around.

Mr. ISTOOK. Listening to the other people, I certainly have got to tell you, I have got probably the universal gripe, if the mail is bringing me a bill, it seems to get their immediately and if it is bringing me a check, it always seems to be delayed.

I don't know how you manage to do that, but if you could look into that.

POSTAL SERVICE EMPLOYMENT

Mr. RUNYON. When we do, we will reverse it.

Mr. ISTOOK. I am sure you will. I did want to ask you on a couple of serious things. I have been contacted by some constituents making me aware of the transitional employee program. I understand these are a non-career temporary work force, and they do not of course receive the same benefits that a normal employee would.

Their concern has been that despite the fact that they have been employed through the Postal Service, have received training and had to perform, of course, up to standards, when it comes to a time when a permanent employee may be hired, they tell me there is no preference whatsoever given to hiring these persons who have already proven their ability, been through training, and are performing up to your standards.

Is that accurate? Is there any preference whatsoever when hiring a permanent employee given to a transitional worker?

Mr. CARAVEO. When we have transitional employees, they have the opportunity to take the exam earlier. They have to pass the exam.

So they do have some preference, but it is required that they pass the examination, pass the Postal Service entrance exam.

Mr. ISTOOK. What does the examination test that is not already demonstrated by their performance, presuming that they have been on the job for any appreciable period of time?

Mr. CARAVEO. Well, there is a minimum qualification that you have to pass the examination regardless of how long you have been working there as either a casual or a temporary employee, transitional employee is the one we are talking about.

Mr. ISTOOK. Is there anything in the original screening and testing process? What are the standards that a permanent hire has met that a transitional hire has not met when hired originally?

Mr. CARAVEO. Well, probably two years ago we were very lax in bringing on non-career employees. We didn't require them to go through all of the—through the hoops that we do now since we have been tightening up our requirements for entrance into the Postal Service.

As far as the transitional employees are concerned, they were brought in originally just to close the gap between where we were and where we would be when we had automation that would be replacing them rather than hiring career employees.

Since then we have had some changes and we had a lot of vacancies and we recognized we would have to increase our career complement. We reached an agreement with the labor unions that we

could bring the transitional employees into our work force by having them pass an examination and then they wouldn't have to go through the regular application procedure.

So that was a major step to get them around what they would have done before, and that is where it is now.

If they have passed an examination, even though they are a transitional employee, they can be hired without having to act like somebody who is just coming in looking for postal employment, because our testing is limited, but we will open the exams for them.

So they do have a big advantage over someone that is not a transitional employee.

Mr. ISTOOK. You say if they pass the test, they can be hired. Does that mean that the hiring official may consider them, but is not required to give them any sort of priority consideration?

Mr. CARAVEO. Well, if they pass the test and there is an opening and their service has been satisfactory, they would be hired in all likelihood. I can't imagine them not being hired, but they have to be hired where there is an opening.

Mr. ISTOOK. Yes. And I am trying to distinguish between your saying in all likelihood, because you are presuming that the judgment call of the hiring official would be to prefer someone who has acquired that experience, but there is a difference between presuming that that would be their judgment and having anything in your hiring procedures that require them to give that preference to a satisfactorily performing transitional hire.

Mr. CARAVEO. Where we could have had some problems come up in this regard is if a transitional employee takes the examination, and let's say they work in one city, and a vacancy comes up in a different nearby city, then they can be considered for hiring in the other city, so then the other person has to interview them, and even though they have experience in the office where they are currently employed, we want to make sure that that experience is transferable to the office that has a vacancy.

The office where they are employed may not have a vacancy because those positions are interim positions and perhaps that position is slated to be replaced through automation, whereas the other one wouldn't be.

Mr. RUNYON. There could be a case where a transitional employee could pass the test and have performed satisfactorily for a year, but didn't have the benefit of being a veteran, and another person who passed the test who hadn't worked at the Postal Service who is a veteran would have veteran's preference.

So that is another little situation that happens because we are covered by the Veterans' Preference Act—that is the way it works.

Mr. ISTOOK. Sure. You mentioned there were previously communications with, I suppose the Letter Carriers Union, regarding changing the hiring standards for transitionals.

Is there any further change in the works or under active consideration, or is that basically a static policy that you have?

Mr. RUNYON. Well, you know, I don't really know the answer to that question. I will get it for you for the record, but our labor relations vice president would be the person who would be making those arrangements with the unions. So I think I need to have his input into this.

Mr. ISTOOK. I would appreciate further information on that because I have been, as I say, contacted by some constituents.

[The information follows:]

Transitional Employees (TEs) may either be hired from the career entrance register or from among those casuals who successfully complete at least one 89-day appointment. Since what is being offered is a non-career appointment, even when TE hiring is done from the register, those applicants who are only interested in career appointments stay on the entrance register if they turn down an inquiry for a TE position.

Being a TE gives no advantage in terms of getting a career appointment per se. By virtue of agreements with the NALC and the APWU, however, TEs have the opportunity to take the career entrance examination after they have successfully served one 359-day TE appointment. This is a significant advantage to the eligible TE since registers are only open to the general public every few years. The transitional employee who passes the examination has his or her score, augmented by any applicable veteran preference points, added to the existing register.

When the installation head fills a vacancy by appointment from the register of eligibles, the top three on the register are contacted for interviews. The person who appears to best meet the requirements of the position is employed, providing a veteran is not passed over by selecting a lower ranking eligible not entitled to veterans' preference. If the transitional service is successful, this usually results in favorable consideration in applying this "rule of three" for the TE when he or she is reached for a career appointment.

PRIVATE EXPRESS STATUTES

Mr. ISTOOK. I wanted to ask you also regarding the statutes regarding the legal terminology distinguishing between extremely urgent letters and regular letters.

There has been a lot of publicity focusing upon what many companies say are fines that have been levied against them for using overnight delivery services, not the Postal Service, to deliver pieces of mail, and I received a copy of your letter or memorandum on the situation.

Has any company actually been fined through the enforcement program of the Postal Service?

Mr. RUNYON. No company has been fined at all. Anything that they have done that does not meet the statutes in the past is forgotten or forgiven and the only thing that happens is, if they ask us to come in and make a—by the way, we have made, I believe it is 41 audits in five years.

We deal with 10 million companies, so 41 audits in five years when we have 10 million companies is not a large number, but there are no fines.

What happens is, if they are using the mail in a way that is not the way the statutes say, and they want to do that, then they pay us the difference and they sign an agreement to do that, and then they pay us that. But it does not go back in time. It only starts when they sign the agreement.

Mr. ISTOOK. Who has initiated the audits and how have you selected the 41 companies out of the massive number that you deal with?

Mr. RUNYON. What happens is they—some of them themselves ask us to come in, or other customers ask us to make the audits. We don't have a random check that we make. We don't have a computer check that we pick somebody out of the computer to audit. We don't do it like that.

Mr. ISTOOK. You say these have been cases of a company voluntarily saying come and audit us.

Mr. RUNYON. Come and talk to us about how we are doing the mail. Are we doing it the way we should be doing it. And by the way, we give mailers an awful lot of help on how to run their mail rooms.

We could go to any number of companies that use our service, which I do, and I go to the mail room and say how are things there. They said really great, you have got a great Postmaster. He comes over here and helps us figure out how to save money.

If we can help them save money, then they will use more of our service, so we are very interested in that and very helpful to them in those regards.

Mr. ISTOOK. Regarding a negotiation when it comes to the Postal Service meeting with the company directly, is the topic brought up that you are subject to potential fines if you are not using the U.S. mail for delivery of anything other than extremely urgent material?

Mr. RUNYON. We don't do fines, have not done them, and we don't expect to do them in the future.

Mr. ISTOOK. You have the authority to do so?

Mr. RUNYON. I don't know if we do or not, I really don't, but I know that we haven't done it.

Mr. ISTOOK. Let me ask this. You don't normally have a company that is going to sit down with a representative of the Postal Service and you are there trying to help them save money, but it ends up that instead of diminishing the amount of expenses they are paying, that they continue to pay the private delivery service the same as they always have, plus make an annual payment, maybe it is $10,000 maybe it is $100,000, whatever it might be, to the United States Postal Service. Now, that is not money saving.

There is some sort of stick as well as a carrot that is offered in those meetings.

Mr. RUNYON. Well, we are following the statutes and we are explaining to them what the statutes are, and that is what we are doing.

Mr. ISTOOK. But that does include the possibility of being fined in some form or fashion if they do not, does it not?

Mr. RUNYON. We have not made fines, and I don't know of any policy we have in place to fine somebody. Now, if a person doesn't follow the law in what they should do after they know what the law is—a lot of people don't follow the law and they don't know it.

Mr. ISTOOK. I thought it was a very simple question I asked and I don't like it being danced around. My question was simply whether in these meetings the potential for being fined is brought up by the Postal Service representative.

Mr. RUNYON. I can't answer that question. I will find out if we tell them their potential to be fined. I think they are not, but I will get the answer for you.

[The information follows:]

We have no authority to impose fines. If a case is presented to the Justice Department by the General Counsel, a fine could be imposed. Inspection Service instructions to field inspectors explain the Private Express Statutes and applicable provisions of the law to help the customer determine if they are in compliance. The Code of Federal Regulations discusses the courses of action that the Postal Service may take with regard to Private Express investigations and does address fines. We do

not believe that inspectors discuss fines with customers. Voluntary compliance is emphasized during our adults.

Mr. ISTOOK. That is my question on that score.

You also indicated that the audits arise out of two instances, one in which there has been a meeting with a representative person in the Postal Service, and another where a third party has requested the audit.

Are we talking about competitors requesting that their competition be audited? How is it that the third party is involved?

Mr. RUNYON. I really don't know. I will have to give you the people who have been making those audits to provide that answer. I will be glad to do it.

Mr. ISTOOK. I understand that anybody that is charged with enforcing a civil or a criminal law follows up on leads that come from third persons. Some people of course will say that it smacks of other things because someone is turning them in, since obviously you have very few that you are able to focus on. I would be interested to know how many of these 41 instances have been occasioned by a third party saying, 'you need to go in and look at these people because they ought to be paying you some money and they are not paying you.'

Mr. RUNYON. Okay, I will provide that for the record.

[The information follows:]

The audits of the 41 firms for which Private Express cases were closed during the period from Fiscal Year 1989 through Fiscal Year 1993 were initiated in several ways. Many of the cases closed in Fiscal Year 1989 were self-initiated. Many of the later cases were initiated at the request of postal management, the General Counsel, customers themselves, or because of customer complaints.

PRIVATE EXPRESS STATUTE LEGISLATION

Mr. ISTOOK. I appreciate that. There are of course different legislative proposals that talk about changing that standard. Do you have any thoughts you would like to share on the wisdom of changing any of the underlying statutes?

Mr. RUNYON. The private express statutes were put in by Congress really to protect the public, and some of the legislation I have seen would eliminate the private express statutes, and if they were eliminated, what would happen is, in my opinion, many places like Washington, D.C., Chicago, Illinois, every large city in this country, would have a local mail service, and what that would mean is that they would come in and say, we can deliver mail for you in that city for 25 cents or some number that would be lower than what we could do that, and that would begin to erode the universal service at a uniform price, because while they would do that to the addresses they select, and these people can be very selective on what addresses they are going to deliver to, there would be people in Washington or Chicago or wherever that they wouldn't deliver to because it is unsafe to go into those neighborhoods.

A lot of neighborhoods in urban areas are unsafe for anybody except a letter carrier. Letter carriers are safe for the reasons that you mentioned, checks come to them and they want to receive those checks and they know the letter carrier is bringing those checks. The letter carrier is okay to come into the neighborhood and to leave the neighborhood. People protect them.

You have another courier—and there are a lot of couriers that will not go into those neighborhoods. The other thing that would happen is it would be impossible—not impossible—very expensive to mail a letter from Washington to Alaska, Puerto Rico or Puerto Rico to Alaska, the universal service at a uniform price, if we get all of the revenue out of the cities into the hands of some private companies, they will not take on the long distance operations, I don't think they can afford to do that at the price we charge, 29 cents.

So that mail in the rural areas which wouldn't be picked off because it is more expensive to get to a rural area, it is more expensive to get to the long distance hauls that have to be made, the price for that mail could go up to, who knows, maybe $5 for the price of a first class stamp, which I think would get Congress back in the business of providing a subsidy to the Postal Service to deliver in rural areas and long distance areas.

I think it is really wrong to think about eliminating the private express statutes.

Mr. ISTOOK. Let me ask this because when I initially saw the publicity, the impression I received was that overnight delivery services through UPS or Federal Express, and there are plenty of others as well that operate, I had the impression they were talking about the services that customarily may cost you $8, $10 or $12 for overnight delivery, but I received a memo from your legislative affairs office which states that it is conclusively presumed under your regulations that a letter is urgent and therefore exempt from this limitation.

URGENT LETTER RULE

It is conclusively presumed to be urgent if the shipper pays at least $3 per letter or twice the applicable first class rate if that would be greater. Are those the only cases that you have taken action through these audits where someone is charging less than $3 per letter?

Mr. RUNYON. For non-urgent mail?

Mr. ISTOOK. Yes.

Mr. RUNYON. To my knowledge, that is true.

Mr. ISTOOK. So it is not applying to anybody that may be paying somewhere in the general range of $10 or so for an overnight delivery?

Mr. RUNYON. Yes and depending on the size and weight of the item it could apply if is a non-urgent mail.

Mr. ISTOOK. OK. I am not sure if I understand you. You are saying that if it is overnight delivery and maybe they paid $10 for it, but if it is non-urgent mail, then you require them or negotiate with them the payment to reimburse for first class postage?

Mr. RUNYON. That is right.

Mr. ISTOOK. But yet this memo from your legislative affairs office says that it is conclusively presumed that it is urgent if they are paying at least $3 for it, and that seems to contradict your answer.

Mr. RUNYON. Yes, for a letter. If you have 100 individual letters in there, then you are not paying the first class postage.

Mr. ISTOOK. I see. If you have those letters bundled together inside one package.

Mr. RUNYON. Yes, if you have bundled together more than what the cost would be, then that is where the problem would exist.

Mr. ISTOOK. I suppose at that particular rate, they might have, up to eight or nine letters that might be bundled together in one package that they pay $10 for an overnight delivery, you are saying that the postage would have been less than $3.

It is the fact that one package has multiple letters in it that causes you to become concerned?

Mr. RUNYON. That is my understanding.

Mr. ISTOOK. But if it is one letter and they are paying $3 or more, then that is conclusively presumed to be urgent. Is that what this memo says?

Mr. RUNYON. That is what that says and I am not technically qualified to answer these kinds of questions, but I have people who can answer them, and I would be glad to have them meet with your staff and talk to them about that because I am not a technician.

Mr. ISTOOK. Sure. Because I see the potential for some discrepancy between what they put in the memo and what you are saying today. I know that you are in charge of the overall system, not watching all the details every day, but I would like to have that clarified. I would appreciate it.

Mr. RUNYON. Fine.

[The information follows:]

The rule states: A letter is conclusively presumed to be urgent if the shipper pays "at least three dollars or twice the applicable First-Class rate, if it is greater." The key factor is the weight of the mailpiece. At current First-Class rates, the postage for a letter weighing six ounces is $1.44. Since $3.00 is more than twice the postage at that weight, the private courier's charge would have to be $3.00 or more for the conclusive presumption of urgency to apply. At seven ounces, however, the current First-Class rate is $1.67, so the courier would have to charge at least twice as much, $3.34, for the presumption to apply. A mailpiece might weigh seven ounces or more through the aggregation of smaller letters, or because it contained a single heavy letter, such as a business report.

Additionally, certain exceptions exist. The Postal Service Law Department has excluded certain matter in its definition of the term "letter." Examples include telegrams, checks, drafts, notes, bonds, stock certificates, and certain instruments when shipped to, from, or between financial institutions. Also excluded from the letter category are mortgages, title abstracts, deeds, leases, or legal papers filed in lawsuits, and official orders of the court.

Criteria for Non-Payment of Postage.—Letters may be carried privately without payment of postage when they meet the following criteria set forth by law:

Transmitted with and related exclusively to cargo.

Carried by the sender or the recipient (or by an employee of the sender or recipient).

Carried to or from a postal facility where they are to be or have been carried in the mail.

Carried by a special messenger employed for the particular occasion only, provided no more than 25 letters are carried and the use of the messenger is an infrequent and irregular matter.

Data Processing Suspension.—A suspension of the Private Express Statutes may be granted in the carriage of data processing materials by private courier, provided certain conditions covered in 39 CFR 320 are met. The term "data processing" means electronic mechanical processing.

ZIP CODE BOUNDARIES

Mr. ISTOOK. The final area I wanted to ask you about is regarding zip codes. I realize zip codes were not created originally for a purpose other than delivery of mail, but they have come to be used

for many other purposes by government entities, such as identifying areas for purposes of tax assessment or collection, or for purposes of insurance ratings by geographical areas.

It is very common that zip codes are used for other purposes, and I happen to live in a community that sometimes has confusion because of that. You are familiar with Oklahoma City and I live in Warr Acres, one of the suburbs there, and I am sure you have passed through it. There is concern because Warr Acres is split among various zip codes of Oklahoma City and it has caused many different problems over a period of time for the community.

I have had occasion in times past to try to communicate with postal people about it, but I have never gotten a clear answer to who has the authority to establish the boundaries of a particular zip code, because obviously the community would like its own distinctive zip code that is unique to Warr Acres. But I have never had a clear answer to the question of who actually has the ability to make that decision.

Mr. RUNYON. I will let Joe answer that question because I don't really know.

Mr. CARAVEO. Zip Codes do not necessarily follow community or municipal boundaries. They are determined by how we can best distribute the mail and deliver it within our own procedures.

Now, what has evolved is that a lot of these other uses for the Zip Codes that you have mentioned, and we frequently get involved where communities want their own identity, they want their own Zip Code, and we handle those on an individual basis, depending on whether there is going to be any operational problems in resolving it.

So each case is independently reviewed to see what the operational impact would be.

Mr. RUNYON. Who has the authority to make that final decision?

Mr. CARAVEO. We do. The Postal Service does.

Mr. ISTOOK. But who within the Postal Service? That is the question.

Mr. CARAVEO. In my department.

Mr. ISTOOK. Is that a decision that is made out of Washington, or is it a decision that rests with the local Postmaster?

Mr. CARAVEO. In Washington.

Mr. VISCLOSKY. Would you yield one moment on that question? That would not be a decision that would be made at the State level?

Mr. CARAVEO. No. It would be made in Washington.

Mr. RUNYON. Might be a recommendation from the State?

Mr. CARAVEO. We take local input.

Mr. VISCLOSKY. On the boundaries of the Zip Codes?

Mr. CARAVEO. On the boundaries of Zip Codes, yes.

Mr. ISTOOK. I think you were still making a little bit more comment. Did you have anything else you wanted to say?

Mr. CARAVEO. No. That is basically it, yes. We would be glad to hear from you if there is a problem or some kind of a discrepancy, we will look into it.

Mr. ISTOOK. I certainly would like to follow it up further and I won't take this occasion to bend your ear further. You understand the basics of the circumstance and when you live in a community

that has seen on multiple occasions tax revenue go to Oklahoma City when it should go to Warr Acres because of the reporting requirements, certainly it is of concern to you. I was involved in this when I was on the city council in Warr Acres some years ago in an effort to make sure we more clearly identified the community.

You know, the street signs in Warr Acres are distinctive. They look different than the street signs in Oklahoma City and they say Warr Acres in big letters on them. And it is very important. I am proud to live in a community where the average police response time is two to three minutes rather than the longer periods that some people have to have and where the fire response time is similar, and there are many other important distinctions too. We love Oklahoma City but we love Warr Acres too, and that has certainly been a part of the community effort and I will contact you further about it.

Mr. CARAVEO. Thank you. We look forward to it.

Mr. ISTOOK. Thank you.

Thank you, Mr. Chairman.

Mr. VISCLOSKY. Mr. Istook, thank you, very much.

Mr. Runyon, you make me happy to be a Member of Congress. I wouldn't have your job for anything.

Mr. ISTOOK. Let me say amen to that.

POSTAL SERVICE EMPLOYEES

Mr. RUNYON. Well, it is interesting you say that. I am happy I have the job. Not that I am looking for employment, but I am working with a group of people that are outstanding.

The people in the Postal Service are the most dedicated, loyal people of any organization I have worked in, and I have worked in three others.

They want to do their job. It really hurts them to have criticism like we have had in Chicago. They said, what can we do to fix this thing—set it right?

I was talking to a bunch of postal customer councils. Those are people who deal with the post office, and I was hooked up with 200,000 of those just last week and one of the questions came in, what can we do as your customers to get people to understand we like doing business with you and to get the image changed so that we don't have these cartoons and things.

And that is a hard question to answer when you have an 89 percent customer satisfaction index. And by the way, that is not just those big mailers. That is everybody that uses the service, and if you were to take all the big companies in this country, you would find very, very few with that high of a customer satisfaction index.

But still, you know, the late night shows have the jokes. The cartoons that come around when we say we are going to ask for a rate increase of 10.3 percent, and people say, that is horrible, horrible. What they don't understand is that is two points less than the rate of inflation. People don't understand that.

POSTAGE RATES

As a matter of fact, U.S.A. Today put something out yesterday that was sort of right, sort of wrong in a little box down in the corner and it said that the rate of inflation since 1971 went up 271

percent and the cost of postage went up 300 percent. That is true from a consumer standpoint, but it is not true from the cost of delivering the mail, cost per piece, because in 1971, stamps were 8 cents. This is a leveling factor they placed on it. It is 8 cents. It is now 8.4.

However, the Federal Government was giving the post office a subsidy of 2 cents on every 8 cent stamp, so the cost of delivering that mail was 10 cents. It is now 8.4. That is down.

If you look at the rate of inflation, if we are at 300 at 8.4, we were at, I don't know, 350, whatever that number was, before. So it is just little bits of information that go out that don't really tell the true picture of what the Postal Service is doing, and my whole objective is, number one, change the culture of the Postal Service. We really need to change that.

We know we have customers and our only job is to provide service to those customers, and we have got to give better service to those customers and that is a real challenge. It is a real challenge for 700,000 people and we have got to change the culture of the Postal Service to do that, and that is what we are dedicated to.

And for that reason, I like my job because I think we have got people that can do that and we are expecting it to happen.

Mr. VISCLOSKY. It wouldn't be a postal hearing if we weren't somewhat parochial. First is I want to congratulate you for putting a Slovac graduate of Thomason High School from Gary, Indiana in charge of the Postal Service in the State of Indiana.

We in our corner of the State do not often receive the recognition or the appointments that the talents of our people warrant. So you have made me happy.

Also, prior to the holidays, I and my wife and our two sons, we shared the flyer with them, were pleased when the postal station at Bethesda, Maryland, sent a notice out informing us of all of the various management personnel at that station, their telephone numbers and all but imploring us to call them if there is a problem.

COURTESY

And if we are talking about changing people's attitudes and perceptions of the Postal Service, that is certainly a thing that goes a long way.

On the other hand, if I would have a generalized complaint, and I have not had a bad experience, if you would, going into a postal station at the counter, it often appears that in some instances at some stations, there is a personality test given and someone would have to flunk that test in order to get a position at the counter.

And I say that somewhat facetiously because one of the things that I tell people who work in our office, both locally as well as in Washington, is if you don't like dealing with people, and some people are not reasonable any time they have an interaction with the United States Government or the Postal Service, then you ought to be working someplace else where you don't have that constant interaction, and even if you are overburdened at that particular moment, day, week or month, you should not act as though you are, in that working for someone and giving them service, has

somehow imposed upon them, and I think that attitude is very important.

The Postal Service from my perspective personally as a Member of Congress and a Member of this subcommittee, dealing with issues such as zip codes and those controversies that arise in every Member's district based on who has the next suburban growth, racial attitude in some instances, community identification, have been very responsive.

But, prior to your coming aboard, prior to my coming aboard on this subcommittee, it took nearly seven years to resolve one issue to most people's satisfaction. The service has been much more prompt, much more responsive subsequent to that.

So if I would have one message personally, it would be just to continue your efforts as far as the average attitude.

I look at the statistics generally and look at the number of pieces that are delivered by the service per employee, and setting the cost figure aside, marvel at the efficiencies that have occurred over the last decade or two as far as the service goes, but clearly you are in the public domain and you touch every house in this country every day. So you do have a task.

POSTAGE RATE INCREASE

What I would like to talk about for a few minutes here is the future. You are in the process of a rate increase and you are on a three-year cycle. You have also indicated that because of the structure of the request, the taxpayers, customers that you serve are going to have a savings over the next several years of about $14 billion.

First question I would have on the three-year cycle, is that short enough, given some of the technological changes, the changes as to how major mailers, including political candidates, can now presort their mail, to adjust your rates to make sure that you are as competitive as possible with those who prepare the mail prior to its delivery to you?

Mr. RUNYON. First, we are not on a three-year cycle now. We have been four years with the same rate. We are looking at what we think the cycle should be. We have a lot of customers that say, why don't you get on a one-year cycle so we can have less of an increase on an annual basis, if there is going to be an annual increase every year as opposed to saving it all up and hitting them at one time, and we are looking at that.

What we have asked for is 10.3 percent across the board, which means that we will not—we are not asking for any adjustments in any kind of classes.

Now, we did talk about one class that is going to have to be adjusted, but that is because of the cost, not meeting 100 percent of the cost, so that is the reason that has to go up.

We are looking at how we can get on the cycle that our customers are—really want us to be on, and we also are not asking to change any kind of rates or regulations right now by class. We do intend to go back in a year and have a rate reform case with the Postal Rate Commission where we would look at what we need to do to make sure that we are getting the mail in the best possible way for us to deliver it as economically as possible.

As Chairman Yates said, we are supposed to deliver mail on time and we are supposed to deliver mail at a reasonable price, and one of the things we need to do is go back and look at the rates and see what the best way our rates should be set so that we can encourage people to mail their mail in a way that is cheaper for us to handle, because we have been changing rates off and on.

I think we need to go back and make a thorough overhaul. We have got all of our mailers, mailing groups, special interest groups, unions, management associations, and Postal Service involved in looking at those rates and telling us what to do. If we put in automation and we don't make it cheaper for people to use the automation, then they won't use it and we will have it there sitting and not working properly.

So we need to fix the rates so it goes with the facilities that we have and we get ultimate benefit of all the facilities we put in place. So we are going to be doing that. That is going to be in a year. That is not in our rate case now.

Mr. VISCLOSKY. So you would be looking to match up those efficiencies as soon as possible?

Mr. RUNYON. Right, so we could get more efficiencies in the way mail comes to us. You see, our large mailers—by the way, our mail—a large percentage is large mailers, the mail of individual to individual is a very low percentage, and the way they deliver the mail to us depends on how economically we can ship it out.

We have a lot of people that deliver mail right to our dock for our letter carrier to take right to the residence, so therefore their rates are cheaper.

FINANCIAL CONDITION

Mr. VISCLOSKY. Mr. Riley, you have had an easy day of it here. Let me ask you about the financial condition of the post office. You are looking at a previous deficit, you are looking at a prospective deficit, depending upon what happens with the rate increase cases.

What are the financial circumstances? Are the estimates we see now based on last winter's bad weather and other estimates or are those yet to be factored in?

Mr. RILEY. The estimate that is in your package, a deficit of $1.344 billion is based on a budget we put together prior to the winter. We are slightly behind the budget, about 2 percent behind for the first five accounting periods that we have had, through the first six accounting periods.

Mr. VISCLOSKY. So you would be about $20 million more if my math is right?

Mr. RILEY. No. We are about—we are approximately $450 million behind budget through the first half of the year.

Mr. RUNYON. $151 million of that was attributed to snow costs.

Mr. RILEY. As the Postmaster General said——

Mr. VISCLOSKY. Your anticipated deficit for 1994 was $1.3 billion and you are saying that during the first half of the year, your deficit today is $450.

Mr. RILEY. No. We are actually making money. We are behind our budget. The Postal Service is seasonal in its patterns of earning or losing money. It is a technical distinction.

Mr. VISCLOSKY. Are you saying if the shadows of the future are not altered, your projected deficit for 1994 is possibly $1.75 billion?

Mr. RILEY. That is correct, and we are working to alter those shadows.

Mr. VISCLOSKY. Assuming the loss from last year, assuming some type of rate increase, you are still going to be at the margins, not even at the margins I guess for 1994 because the rate increase wouldn't kick into until later.

Given $1 billion losses the last couple years, what does that do to not only daily operations, but R&D and investment as far as automation, new efficiencies? For anyone.

Mr. RUNYON. I will answer that. First, we didn't have a loss from operations last year. We actually made $20 million last year. You have got a number that says $1.7 billion there, I think. I would like to explain that number to you.

From operations, which is what we control, we made $20 million to our plan. We were assessed $1.1 billion by Congress for—to underwrite the deficit. That was assessed to us, not from operations.

There was another $318 million of revenue foregone that we didn't get from Congress last year and we had to take that. We also made a very smart business decision last year. That was to refinance $5 billion of our debt. It cost us $537 million to refinance that debt. We had to take that as a one-time hit last year. It will pay itself out in four years, and in 20 years, it will pay back $2.2 billion.

So it is a good investment, but it had to go below the line last year, and so that is the reason that you are seeing a $1.7 billion dollar loss.

Now, the $1.1 billion that we were assessed actually doesn't get paid until 1996, 1997 and 1998, so we don't have cash going out until then, but we had to take that below the line as a paper loss. So from an operations standpoint, we did very good last year.

POSTAL SERVICE FUTURE

Mr. VISCLOSKY. The question is not so much—although I did mention operations, I am thinking about the future. I look at your business and some people have told me that your real competitors and the people that are on the horizon are not necessarily some of the private carriers that we have talked about, but the fact that five pages were faxed to my home last night from my office for my review, that there is a thing called E-mail.

If I understand the concept, I appreciate there are people who use it, and other types of electronic transmissions, for example, MET, in the future, if not today. As far as your quantity of mail, talking about wanting to have people use your service, I really wouldn't worry about the phone companies, telecommunications companies. I guess my question is two part.

What is the future out there in terms of the post office? What are you doing in R&D, and then regardless of how the $1.3 billion loss was imposed or forced on you, what happens in 1995, what does that do to you to adjust your overall operations to meet those new competitive demands that are going to bring pressure on your pricing as well as your profitability?

Mr. RUNYON. Well, it does hurt us when we have things forced on us. That affects us. It affects our future too. You are exactly right in that because we have to absorb that in our rates as we go forward to increase rates, because we have to take all that into consideration.

The fax, the E-mail, which we use a lot of in the Postal Service to deal with each other through our computer systems, have taken—well, a few years back we had 100 percent of C&T mail, which is commercial and transaction mail, we had 100 percent of that. We now have 54 percent of that, and it is expected that by the year 2000, we will have 30 to 35 percent of that, so that is revenue going away.

We have to figure out how we are going to participate in the future. In order to do that, we put a new marketing organization in effect about six, seven months ago. Part of that is a technology group that is looking at where is technology going and how do we get tied into that.

One of the things we are looking at right now is working with some of these agencies that we have in the Federal Government, the IRS, Social Security, Veterans' Administration, are talking with us about how can we work with the Postal Service to put kiosks in your post offices.

We have 40,000 offices and they are thinking that we ought to have kiosks in those so that the users of those agencies could come to the post office and use that kiosk to interchange with computers in those agencies so they could figure out—you know, ask questions and get answers and so forth. That is one thing we are looking at.

And we are looking at, how do we deal with the people who are going to be doing all this networking over wires or optics or in the sky, how can we help to be a third party to help them deal with each other. They are going to be able to deal with each other on a private basis and exclusive basis with coding and various things, but—they want to deal with themselves, I am sorry.

But if you want to deal with somebody else in that mode, they would like to have that secure, and we think there may be a place in there for us.

We have got a lot of things we have got to look at from the standpoint of what happens when it goes away. It is not going to all go away. When I talk to catalogers and people that mail like that, they said they are not going to totally disappear. I said, I think they are right. If you have ever seen television, everybody is not happy.

So we have a huge task cut out for us as we go into the future and see where the competition is coming from. You are right. It is not just from those people who carry messages and parcels. It is going to be from a lot of other people.

Mr. VISCLOSKY. Mr. Runyon, thank you.

Mr. Darden.

Mr. DARDEN. Thank you, Mr. Chairman.

Mr. Runyon, it is always a pleasure to have you here this morning. Pardon for my being here late but regrettably we have several things going on at one time. We always have that problem.

Thank you for bringing this chart, and I hope you continue to hammer this point on because I think it is very important that peo-

ple realize what the value is of it, of the first class cost as opposed to that in other countries, and I know that you have made your point over and over, and I have used this argument several times, but please continue to bring that out to the attention of the American public.

Also the other chart, I notice you were not including Congress on that.

Mr. RUNYON. We hadn't thought of that.

Mr. VISCLOSKY. Thanks, Mr. Darden.

POSTAGE REVENUE DEFICIENCIES

Mr. DARDEN. A couple of comments I want to make and then a couple of questions, if I may.

First of all, I have been working with the Postal Inspectors to look at ways in which a possible pattern of undercounting going on in which mail houses bring in a significant number of pieces of mail. I don't have a question right now because I am not in a position to go forward, but I did want to make you aware that we have determined there is some potential for abuse in this area. While we are worried about the small instances of fraud here and there, that I want to be sure that we are not getting our attention away from areas in which there are potential for large amounts of lost revenue.

So I want to tell you that we appreciate the cooperation we have received in working with your department on that.

POSTAL SERVICE BORROWING

I have two other general areas I want to mention to you. First of all, I have been trying to work, unsuccessfully I might add, with the Federal Financing Bank to allow one of our constituents to exit that bank and to go through the private market and refinance their debt in that way. I understand you have been successful in refinancing some of your debt and exiting the Federal Financing Bank. Is that correct?

Mr. RUNYON. No, sir. We were successful at TVA in doing that. TVA now works on the open market. We tried to do that here. They didn't want us to do that, and we kind of got down to the point where we said, well, we are going to go, and the bank said, well, what is your main reason for going? Well, the main reason we wanted to go was we didn't have call provisions.

When you make a loan for 30 years in a private business, you might have a three-year call provision on that, and that is worth a lot of money to you, you know, and the rates fluctuate a lot. So they did get us call provisions which is, I think, they don't do that too often, but we did get call provisions on $5 billion.

Mr. DARDEN. On $5 billion?

Mr. RUNYON. Yes.

Mr. DARDEN. For those of us that want to initiate it, what does that actually mean——

Mr. RUNYON. It means that we borrowed it at a rate that was in existence at that time, and if in three years the rate goes lower, we can say we are paying you off and we want to borrow some more money from you to—at a lower rate with call provisions again, and that saves us money.

It saves us, on the $5 billion over a 20-year period, $2.2 billion by refinancing the debt.

It is just like when I have refinanced my home three times in the last year. Every time it dropped, I did it again because it really felt good to be paying less money in interest, and it is now—it was down to 6.45 for home loans and when you have got a substantial amount of money that you are paying on, then it is better to be able to call it.

Now, in the marketers' business—I guess they have some that don't have the ability to pay it off. I am always sure I have got the ability to pay it off—or the right to pay it off, or to reduce the interest.

Mr. DARDEN. So rather than exiting the bank, the Federal Financing Bank, you did get the call provisions——

Mr. RUNYON. Yes, sir.

Mr. DARDEN [continuing]. Where you could avail yourself of a much lower interest rate?

Mr. RUNYON. Yes, sir.

Mr. DARDEN. So you didn't have to refinance then because you did get the provision?

Mr. RUNYON. We did refinance. We did refinance. We had to terminate the loans. I am talking about something the finance man ought to be talking about here, but we did write that off, that loan, and they write another piece of paper that says now you have this at this rate and you got a three-year call or two-year call or one-year call or whatever provision.

Mr. DARDEN. I have been frustrated because we have a constituent in Georgia with $3 billion and we haven't gotten any relief at all. I was wondering, is the Federal Financing Bank really relevant today?

Do we need a Federal Financing Bank or should we maybe look to others, look to the private industry?

Mr. RUNYON. At TVA we had much more money that we owed the government. I think we owed $20 billion, so we owed this on a revenue stream of $5 billion. Here we have got a revenue stream of $50 billion and we only owe $15 billion, so it is certainly a different situation, but we were successful at TVA in going outside.

The Federal Financing Bank agreed to let us go outside, which we did do, and it has been working very well.

The first time we went out, we started to raise $1 billion and before we could close the deal out, it was up to $4 billion and the people wanted it and so that worked.

Of course that had call provisions. We reduced the cost at TVA about $170 million a year through refinancing. We were also able to go out and get some 50-year bonds financed, which was something unusual.

Mr. DARDEN. 50-year bonds. At what rate?

Mr. RUNYON. A very good rate. I don't know what it was, but it was a good rate. I think it was $1 billion we put out. 50-year bonds hadn't been put out by anybody for quite a long period of time.

But I don't keep up with them too much, but I think they are still getting along pretty good by going out to the market, and I think that we could go to the market and do very well too.

Whether there is a need for the Federal Financing Bank, I really can't answer that. I just know that we could probably deal very well in the open market.

Mr. DARDEN. Did you want to add something to that, Mr. Riley?

Mr. RILEY. No, our tack has been to work with the Federal Financing Bank and talk about some of the things that have been available on the market that aren't available through them, rather than to attempt to leave them, and I think that is a serious policy question.

The Postmaster General commented on the policy question because I wasn't prepared to.

ADDRESS INFORMATION ACCESS POLICY CHANGE

Mr. DARDEN. Another area I wanted to talk with you briefly about, and I am sure you have received quite a comment about. You can tell fairly quickly I am one of the few people who is not mad with the post office this morning. But I want to point out that I see the purpose for which you have proposed a change of rule which has to do with forwarding addresses. I understand that part of the reason had to do with privacy concerns and for the protection of individuals who might be endangered if you arbitrarily give out a forwarding address.

I had comments from a number of businesses, in particular those who extend credit, that the new rule will enable people to owe debt to hide from the creditors by moving and having the post office refuse to divulge their new address.

What I would like to know is how a business can obtain an address correction to a debtor under the new rule? What is the procedure to follow? We passed, in the last few years the Fair Debt Collection Practices Act, which does offer some protection to the debtor. But at the same time we are having a lot of concern expressed by people who are not only in the debt collection business, but also people who do their own collections.

Mr. RUNYON. I can't answer that question right now. I am unfamiliar with the technicalities there, but I will certainly get an answer for the record.

[The information follows:

All individuals who move, including those in debt to others, have always had and continue to have the option not to give the Postal Service their change of address information. For reasons of growing public concern about privacy and physical safety, it should be expected that it will be increasingly difficult for businesses, as well as individuals, to obtain the addresses of private individuals from the Postal Service and other agencies.

In our interim policy change, however, we have made a provision to facilitate debt collectors' access to address information and to help ensure the legitimacy of such access to minimize the potential for abuse and physical harm to our customers. Accordingly, debt collectors can obtain a specific person's address information by getting a court order for the address or by performing as a "process server" (deliverer of legal documents) or using the services of a process server.

As an interim alternative, collection agencies and individuals can endorse their tailpieces with "ADDRESS CORRECTION REQUESTED." Our mail processing employees return to the sender any such tailpieces that contain the former address. The tailpieces are affixed with a label showing the new address. We do this routinely for First-Class mailings as an address correction service. As announced in the Federal Register on March 11, 1994, we have invited written comments and suggestions on the interim rule change. All such comments received by May 10 will be evaluated and considered before making the change our standard operating procedure.

Mr. DARDEN. Let me emphasize, I have no problem and I think no one on the committee would have a problem with the overall goal of protecting the privacy of the individual to a certain extent, but at the same time where do you draw the line in allowing a person who is entitled to be paid to keep up with that?

Mr. RUNYON. Right, and that was not our intention to create that type of opportunity for people. Our intention was to protect people for various reasons. Not paying debt wasn't one of them.

Mr. DARDEN. Exactly, but it has probably had, in some instances, unintended results, so I wanted to make you aware of that as you come forward with your final rule.

Mr. RUNYON. All right.

Mr. DARDEN. And thank you, very much, Mr. Chairman.

Mr. VISCLOSKY. Mr. Darden, thank you, very much.

GSA OVERNIGHT MAIL CONTRACT

Mr. Runyon, one last line of questioning. You had mentioned in earlier testimony the contract the Federal Government has with Federal Express. Could you tell me about that and how that came about? And is GSA the agency——

Mr. RUNYON. I guess GSA goes out for bids on that and they bid a low price. I am sure it is a fair price, of—$3.75, I think it may be $7.95 now, as compared to our bid price of $9.95.

Now, for us to be eligible to bid in that, we would have to prepare a case, which might take a couple months, to go before the Postal Rate Commission and prove to the Postal Rate Commission that that was a profitable thing for us to do.

They would have 10 months to make that decision, and then if we were allowed to do it, the bidding may be closed. The bidding on something like that, I don't know, might extend 90 days. So it puts us at a little disadvantage, but that is the way it is.

Mr. VISCLOSKY. How often is that contracted out or is that a new development?

Mr. RUNYON. I don't know. I don't know whether it extends for a period of time or not, but when we go to the Postal Rate Commission to change the way our rates are reformed, one of the things we would like to talk to them about, and I think that they are quite willing to talk to us about it, is a sliding scale.

You see, our competition might have a single piece cost to a customer of $16.95, but then they are able to negotiate with any customer any price. So if they go with a customer that has 100,000 pieces in a year, they might give them a different price because they worked on 100,000 pieces and they can still make a profit on it, and I understand that.

We need to figure out a system in the Postal Service so that we can compete with that. Now, one of the feelings——

Mr. VISCLOSKY. Is that a statutory limitation?

Mr. RUNYON. Well, rates are set by the Postal Rate Commission. We have to prepare a case and go to them for their approval to change a rate.

Mr. VISCLOSKY. It is not a statutory prohibition—is there a statutory prohibition today that would disallow them from allowing you to compete on the spot market, if you will?

Mr. RUNYON. I don't think there is any kind of statute that would keep them from doing that. I think that the process is in place to do it, but the process takes a long time.

Now, there is another feeling in a lot of areas in the government that we shouldn't be competing with private industry. People think that, well, you are government. Tax dollars support you so therefore you shouldn't be in competition with people who pay the tax dollars.

Well, I would agree with that if we got tax dollars, but we are kind of in reverse on the tax dollars. We are giving the government money instead of taking money from the government. We don't get any kind of appropriation relief.

Now, we have talked to you today about $130 million dollars.

Mr. VISCLOSKY. They are obviously competing with you for that business.

Mr. RUNYON. Oh, absolutely. They are competing——

Mr. VISCLOSKY. And you would make money on that business?

Mr. RUNYON. But people say, wait a minute, you shouldn't be competing with those people. I say, hold it. Let's talk about something. Let's say there is $1 million worth of business sitting out there and we sell this for $10. Competitors sell it for $4. So how about me doing that for $3.90.

They say, well, if do you that, those people out there are going to lose jobs. If they don't have that work, they are going to lose some jobs. I say that is probably right, but they are smarter than that. They won't lose jobs. They will go down to $3.70.

So then what happens? Well, then we will come back with $3.60. If we finally get it, then, yes, they will lose some jobs because we are more competitive. We are doing a better quality job and therefore they are going to lose jobs.

If they get it because they are more competitive than we are, we are going to lose jobs. So which job is the most important? A government worker or a private sector worker? I say that they both are entitled to jobs and they should get their jobs based upon their ability to perform.

Mr. VISCLOSKY. In the meantime, Federal taxpayer dollars are being used to make the payments for——

Mr. RUNYON. Federal taxpaying dollars for what?

Mr. VISCLOSKY. For the agencies. Taxpayer dollars are ultimately paying the cost of that contract.

Mr. RUNYON. You are talking about Fed Ex. If that is the case.

Mr. VISCLOSKY. Reduce it to $3.90 instead of $4.

Mr. RUNYON. Cut down on the amount of—right, you would save. Just like I mentioned in the testimony, that by not going to the higher rate that we had planned to do this year, we are saving the government $300 million, and if in any case where they are dealing with the Federal Government and we are competitive and can do it at a lower price, then the Federal Government will save money. That is right.

Mr. VISCLOSKY. We had an economic depression in my district from 1977 to 1987 because of the decrease in the structure of the steel industry. What is left of the industry in my district, and one of the things that the new management of our major utility compa-

nies have done is to provide very competitive rates to huge users of gas and electrical energy.

In this case we have a major customer from my own perspective who it would make sense would allow you to compete, as long as you could make money doing it.

Mr. RUNYON. Right. You see, if we can make money doing it, we are going to have to raise our prices less, and that is what competition is all about. This country was founded on competition.

It was founded on competition, and the mere fact that we are a quasi government agency, to not allow us to compete is really kind of bad.

Mr. VISCLOSKY. But it is not a statutory prohibition?

Mr. RUNYON. I don't think it is a statutory prohibition. I don't know the statutes that well.

Mr. VISCLOSKY. You might want to expound on that for the record. You might want to describe what the circumstances are and how that decision would be resolved, I would appreciate that.

[The information follows:]

There is no specific statutory limitation that would prevent the Postal Service from offering volume discounts, and the Postal Service has requested that the Postal Rate Commission establish such accounts on several occasions. The Postal Rate Commission, however, has interpreted the statute in such a way that it has refused to recommend the discounts requested by the Postal Service. The Postal Service does not believe that any specific statute would prohibit us from attempting to secure a contract with the General Services Administration to provide expedited delivery services to the federal government.

PRIVATE EXPRESS STATUTES

Mr. DARDEN. Mr. Chairman, before you conclude the meeting, I wanted to mention a follow-up along this line to Mr. Runyon. I think Senator Coverdell is involved in a little flap with you over a related issue. Could you respond to us a little bit about that situation for the record, please?

Mr. RUNYON. Yes. I think the Senator has entered a bill to eliminate enforcing the private express statutes, and what that would do would allow people to compete with us on a city by city basis.

We have a statute that says that we have to provide universal service at a uniform price, and if that statute were passed, it would remove the protection that the public has, not the Postal Service, the public has, because what would happen is that in large cities, there would be companies, individual companies set up that would deliver mail within that city at a low price, maybe lower than what we are charging.

Mr. DARDEN. But not necessarily in Gary, Indiana.

Mr. RUNYON. Gary might not be so fortunate as to have one of those companies that would do that, but they might. They might do it in Gary. But if Gary wanted to come in and compete with Chicago, that is a different situation, or if somebody in Gary wanted to communicate with somebody in Los Angeles.

Now, we carry that mail. But if we have all of the door-to-door mail taken from us, then we wouldn't be able to stay at the same price. We could still provide universal service at a uniform price, and we would still deliver to those people who wanted to use the mail in Gary, Indiana, if they had one of these companies at a much lower—well, maybe not lower price than they could get—not

a lower price, because what would happen is the price of our delivering mail could be a $1, $2, $5, depending on how many of these large cities had a private person come in there and take it over but wouldn't take care of all the outlying, like the rural areas, cross country, so all of those things would go up in price or have to be subsidized by Congress again, which it used to be.

Mr. DARDEN. And this led, I believe, to the flap with Equifax over a fine that was imposed on using——

Mr. RUNYON. It led. We did not fine. Equifax reached an agreement with us to pay us a certain amount and——

Mr. DARDEN. That was in the negotiated settlement, was it not?

Mr. RUNYON. Yes.

Mr. DARDEN. That they agreed to——

Mr. RUNYON. Absolutely. The only agreements we have like that, we have gone to 41 companies in five years out of 10 million companies we do business with, and those were all negotiated settlements that the company agreed to the amounts, and nobody was imposed a fine.

Mr. DARDEN. You received no complaint from Equifax?

Mr. RUNYON. I can't answer that question. I don't know.

Mr. DARDEN. This was a settlement, this was an agreement that you reached with the company?

Mr. RUNYON. We had reached an agreement with—I don't know the full facts. I know that we did reach a rule with Equifax and I think it turned out—I will just give you that for the record. I don't know exactly what the total facts are.

[The information is provided in response to questions for the record.]

Mr. DARDEN. Thank you very much, Mr. Chairman.

Mr. VISCLOSKY. Mr. Runyon, thank you, very much.

We will have some questions for the record and would ask that those be responded to. Unless you have any other comments, we will stand adjourned.

Mr. RUNYON. Thank you.

Mr. VISCLOSKY. Thank you, very much.

[Questions submitted for the record follow:]

QUESTIONS SUBMITTED FOR THE RECORD BY THE COMMITTEE

PENDING RATE INCREASE

QUESTION: WOULD YOU BRIEFLY DESCRIBE THE PROCESS ESTABLISHED BY LAW FOR POSTAL RATE INCREASES?

ANSWER: The Postal Service first must prepare the detailed material required under the regulations of the Postal Rate Commission to support a request to the Commission for a recommended decision on postal rates. The Commission holds hearings and must, within 10 months, issue a recommended decision based on the record developed in the proceedings it conducts. The recommended decision is considered by the Governors of the Postal Service, who may accept the rates recommended, reject them, or allow them to go into effect under protest and either return the matter to the Commission for further consideration or seek judicial review. After further consideration and another recommended decision by the Commission, the Governors may modify the recommended rates if they would not produce sufficient revenue to the Postal Service to break even. When the Governors decide to place rates into effect, the effective date is determined by the Board of Governors, which includes the Postmaster General and Deputy Postmaster General. Any party to the proceeding before the Commission may challenge the Governors' decision in a United States Court of Appeals if that party believes that the rates were not lawfully established.

QUESTION: THE PROPOSED RATE INCREASE OF 10.3 PERCENT IS FAIRLY LOW. WHAT FACTORS WERE THIS PROPOSED RATE INCREASE BASED ON?

ANSWER: Simply stated, the relatively low rate increase proposal is based upon conservative cost increase projections and our belief that our customers deserve better than a third increase in a row which greatly outstrips inflation. In terms of our projected cost increases, we believe that the recent restructuring and debt refinancing along with other efforts to control costs will mitigate the impact of inflation on postal rates. We would be remiss, however, if we did not indicate that the small increase we propose has very little margin for additional costs beyond those already projected.

The past two rate increases have been substantially above the level of inflation. As a public service organization, our goal is to provide our customers postal services at reasonable rates. The proposed rate increase is consistent with this goal. Moreover, from a business perspective, we cannot expect to survive in an increasingly competitive environment if we continue to increase our rates greater than our direct competitors along with the other segments of the communications industry.

QUESTION: THE IN-COUNTY 2ND CLASS MAIL RATES (FOR SMALL IN-COUNTY NEWSPAPERS) ARE INCREASING BY MORE THAN 10.3 PERCENT. WHAT IS THIS INCREASE AND WHY IS IT SO DISPROPORTIONATE TO THE GENERAL RATE INCREASE?

ANSWER: The proposed rate increase provides for a 34 percent increase in second-class, in-county rates. The increase in second-class, in-county unit costs from the test year in the last rate case to the test year in this case is what determines the lion's share of the rate increase in this case.

The relevant test year figure from the last case is the test year after rates cost forecast as prepared by the Postal Rate Commission. The relevant test year cost in this case is also the test year after rates cost forecast. The composition of costs in both forecasts, to a great extent, is determined by the measured cost in the base years of the two costs.

A comparison of the costs in the two base years provides some insight into what is causing in-county costs to rise by 30 percent. Two cost components are growing at much higher rates than average: mail processing and city delivery in office. Both of these cost components involve sorting the mail; these operations are, in almost all cases, manual operations.

Mail processing costs for in-county second-class rose 48 percent from 1989 to 1993. In-office city delivery costs rose 34 percent. These two components account for 47 percent of in-county costs. Additional indirect costs such as wages and salaries of supervisory personnel, facility space costs and the like are attributed based on these mail processing and delivery costs.

QUESTION: HOW MUCH REVENUE DO YOU ESTIMATE WILL RESULT FROM IMPLEMENTATION OF THE PENDING RATE INCREASE IN FY 1995 AND IN FUTURE YEARS?

ANSWER: The proposed rate increase is designed to improve our bottom line by $4.7 billion annually. However, current plans call for implementing it in early 1995 or the second quarter of the fiscal year. Therefore, a deficit of $2.7 billion without a rate increase projected in the Congressional Budget Submission and the rate case for FY 1995 could turn into a surplus of around $400 million or an improvement of $3.1 billion.

CURRENT FINANCIAL STATUS

QUESTION: YOU HAD AN ESTIMATED LOSS IN 1994 OF $1.3 BILLION. HAS THE BAD WEATHER AND OTHER FACTORS INCREASED YOUR ANTICIPATED LOSS AND IF SO BY HOW MUCH?

ANSWER: We have estimated that in Quarter II, Postal Fiscal Year 1994 (December 11, 1993 through March 4, 1994), adverse weather and other natural disasters reduced postal revenues by $85 million and increased expenses by $66 million, resulting in a net income impact of $151 million. We have not made any full year estimates for the FY 1994 budget impact of these atypical conditions; this could affect our yearly total by the $151 million.

QUESTION: WHAT IS THE CURRENT DEBT OF THE POSTAL SERVICE AND WHAT IS YOUR ANALYSIS AS TO WHETHER OR NOT IT IS EXCESSIVE FOR THE SCOPE OF YOUR OPERATIONS?

ANSWER: As of September 30, 1993, the total debt of the Postal Service was $9.7 billion, or 21 percent of total assets. This percentage is in the mid-range of debt/asset ratios for large corporations such as AT&T (28%), IBM (15%), Fed Ex (35%), Sears (16%), and McDonald's (29%). Therefore, our analysis shows that Postal Service debt is not excessive for the scope of its operations.

QUESTION: GENERALLY HOW WOULD YOU RATE THE CURRENT FINANCIAL STATUS OF THE FINANCIAL CONDITION OF THE POSTAL SERVICE?

ANSWER: Through the end of Quarter II, Postal Fiscal Year 1994, the Postal Service had a loss of $74 million. This compares to a planned income for the period of $399 million, for an income variance of $(473) million. Operating revenues are running ahead of plan by 0.7 percent, while operating expenses are over plan by 2.4 percent. These results were achieved during a period of adverse weather conditions and the unfortunate earthquake which hit southern California.

PRIVATE EXPRESS STATUTES

QUESTION: THE POSTAL SERVICE RECENTLY CHARGED AN ATLANTA COMPANY FOR THE COST OF MAIL WHEN THE POSTAL SERVICE DISCOVERED THAT THIS COMPANY USED A NON-POSTAL DELIVERY COMPANY FOR DELIVERING THE MAIL WHEN IT WAS NOT "URGENT." WOULD YOU PLEASE SUMMARIZE FOR THE COMMITTEE BOTH THE FACTS OF THIS SITUATION AND THE STATUTE UPON WHICH YOUR ACTION WAS BASED?

ANSWER: In June 1991, postal inspectors conducted a review of the Equifax, Inc. mailroom operations. This review indicated that a violation of the Private Express Statutes, 39 CFR 310 and 320, may have been occurring.

The Inspection Service requested Equifax, Inc. to provide documents that related to their Federal Express mailings from the period between October 1, 1991 and March 31, 1992. A review of the contract with Federal Express disclosed that Federal Express rates did not always meet the "cost" test of the "urgent letter" exception of the Private Express Statutes. Moreover, a review of mailroom operations and interviews with mailroom employees on April 16, 1992 disclosed that mail shipped by Federal Express did not meet the "time" test of the "urgent letter" exception in the Statutes.

Interviews with Equifax employees revealed that mailings were consolidated for more than 400 branch offices to be shipped by Federal Express Standard Overnight Delivery (guaranteed delivery by 2 p.m. the next day) every Monday or Tuesday, every Wednesday, and every Friday. The nature of the mail and the length of time it was held prior to mailing (two days) militated against qualification under the "urgent letter" exception in the Private Express Statutes. Moreover, all mail considered to be truly urgent was mailed by Federal Express Priority Overnight Mail, which guarantees delivery by 10:30 a.m. the next day. Equifax also used the services of Courier Dispatch, a local courier service, to mail other articles, such as inter-departmental envelopes, invoices, and envelopes marked "personal," in violation of the Statutes.

On April 17, 1992, these violations were discussed with Equifax managers, who indicated they were unaware they were in violation of the Private Express Statutes. They agreed to participate in a mail volume survey covering the period between April 21 and May 5, 1992. On May 15, a compilation of the data from the survey of mail carried by Courier Dispatch and Federal Express was completed and a letter of demand for $76,036.09 was presented to Equifax. In lieu of paying this amount, Equifax was given the option of entering an alternate Payment of Postage Agreement, retroactive to October 1, 1991. Equifax also was given the option to cease and desist its current mailing procedures with Federal Express and Courier Dispatch; use the Postal Service; or have the private couriers raise their rates to the required rates outlined in 39 CFR 310 and 320.

On May 26, 1992, Equifax entered into an Alternate Payment of Postage Agreement which allowed them to ship letters by private courier services whose rates and service were not in compliance with the Private Express Statutes. This agreement was effective through September 30, 1992. Equifax, Inc., declined to renew the agreement for Fiscal Year 1993. On November 23, 1992, a postal inspector and a Postal Service customer account representative met with Equifax officers to discuss the urgency of the sampled mail. Equifax was notified that any disagreement on urgency could be clarified by an advisory opinion from the Postal Service Law Department. No such request was made, nor did Equifax appeal the results of the mail review, as they were advised they could do.

On September 15, 1993, a postal inspector met with an Equifax official to determine if procedures had been implemented to comply with the Private Express Statutes. The Equifax official advised that the company was using Priority Mail for all non-urgent material and that supervisors were knowledgeable about the requirements and determine what meets the urgency test.

QUESTION: WHAT IS YOUR GENERAL OBSERVATION ABOUT THE PRIVATE EXPRESS STATUTE IN GENERAL AND THE ABOVE CASE IN SPECIFIC?

ANSWER: The Private Express Statutes are an essential part of the U.S. postal system. In many important respects, the Postal Service is structured upon public policy decisions that Congress has made about the type of mail system that best serves the interests of the American public. Some of these decisions are reflected in the language of the appropriations bills reported by this committee year after year, including provisions regarding small post offices, rural delivery, six-day delivery, and free mail for the blind. Other statutory policies include universal coverage, uniform letter rates, reduced rates for certain types of mailers, administrative ratemaking procedures, and federal sector policies regarding retirement and other employment benefits, including workers' compensation.

The Postal Service is required to follow these policies and still be self-supporting. This means, among other things, that the Postal Service has to charge its customers for a network designed for the overall public good, whether individual users would want to pay for all of it or not. A private delivery system probably would not operate that way. It would look for the most profitable opportunities that would earn the biggest return for its investors, and leave the rest

alone.

From the beginning, Congress has understood that the concept of the postal system as a universal public service would not survive without safeguards from predatory competition. Firms that do not have the same public service obligations would be able to take away all of the more profitable business, leaving the postal system and its remaining customers with only the more costly leftovers. To protect the financial viability of the system—including universal coverage, uniform rates, and all the rest—Congress restricted competition by enacting the Private Express Statutes and generally reserving the delivery of letters to the Postal Service. The reasons for establishing the Private Express Statutes still apply because the public service obligations of the Postal Service have not changed.

RECENT RESTRUCTURING AND REDUCTIONS IN FORCE

QUESTION: AT THE BEGINNING OF THE LAST FISCAL YEAR MANY THOUSANDS OF POSTAL SERVICE EMPLOYEES RETIRED AND MANY THOUSANDS OF OTHERS WERE TRANSFERRED AS A RESULT OF RESTRUCTURING. WHAT WAS THE PURPOSE OF THIS RESTRUCTURING?

ANSWER: Marketplace forces dictate a management structure that is customer-oriented. For the Postal Service to succeed as a business, it must become more accountable, more credible, and more competitive. The restructuring was intended to reduce layers of bureaucracy and postal overhead as the first step in improving service quality, customer satisfaction and holding postage rates constant by eliminating the projected $2 billion deficit in Fiscal Year 1993.

QUESTION: HOW WOULD YOU EVALUATE THE OVERALL EFFECTIVENESS OF THE RESTRUCTURING?

ANSWER: Although there is no single comprehensive statistic by which to evaluate the overall effectiveness of organizational change, there are several impact areas that should reflect the results of those changes. We need to improve customer satisfaction, increase our commitment to employees, improve productivity, and strengthen our income streams. Fiscal Year 1993 results in these four areas indicate positive outcomes, even in the midst of one of the largest restructurings in the history of American commerce. For the year immediately following restructuring, customer satisfaction, as measured independently by the Customer Satisfaction Index, reached an all-time high. Although findings from our employee opinion surveys indicated several areas in need of improvement, the results clearly demonstrated an overall high level of employee satisfaction with post-restructuring conditions. Total Factor Productivity of Postal Service operations also reached all-time highs, growing more than four percent in each of three straight quarters. Annualized savings of more than $1 billion from the elimination of 23,000 overhead positions and a more responsive structure led to better than expected financial results. For these reasons we think the restructuring was highly effective, and will provide a solid foundation for further progress towards our goal of providing quality services at economical prices.

QUESTION: MANY WHO WERE TRANSFERRED FILED COMPLAINTS WITH THE MERIT SYSTEMS PROTECTION BOARD. COULD YOU SUMMARIZE FOR THE COMMITTEE THE RESULTS OF THESE PERSONNEL ACTIONS?

ANSWER: The Merit Systems Protection Board has issued a stay of all appeals related to the restructuring. That stay will remain in effect until the Board issues its decision concerning

whether reduction in force (RIF) procedures should have been followed by the Postal Service. The Board's stay order provided that those employees who received assignments can remain in those positions until the Board issues its decision on the RIF issue.

QUESTION: WOULD YOU PLEASE EXPLAIN IN DETAIL THE FACTS REGARDING THE USPS AWARD OF AN AIR TRANSPORTATION (ANET) CONTRACT TO EMERY AIR FREIGHT?

ANSWER: In September 1992, Emery Worldwide filed suit in District Court to enjoin the award of the ANET contract to Postal Air, Inc. Judge Lamberth concluded that the case had merit and ordered that the technical portion of the evaluation be recompeted. Upon consideration of the cost of reprocuring a portion of the solicitation and the time involved in doing this, the Postal Service chose to seek a settlement with the litigants, Emery and Express One. The settlement was approved by Judge Lamberth.

The settlement approved by Judge Lamberth on April 15, 1993 provided that:

- Emery would become the prime contractor at the bid price of Postal Air of $85 million;
- Express One would become a subcontractor and acquire the same 727-200s Postal Air would have purchased and would operate four legs of the network;
- Express One would share in a portion of the contract work;
- Emery would withdraw its protest award made to Evergreen on the Terminal Handling Contract (TNET 93-01).

QUESTION: ARE YOU SATISFIED WITH THE REVENUE FORGONE ACT WHICH WAS INCLUDED IN THE TREASURY, POSTAL SERVICE, AND GENERAL GOVERNMENT APPROPRIATIONS ACT LAST YEAR? IF NOT, WHAT RECOMMENDED CHANGES WOULD YOU MAKE?

ANSWER: Our position on revenue forgone and preferred rates has always been that preferred rates should not create a financial burden on the USPS or other mail users. In last year's reform of the revenue forgone program, Congress did not eliminate preferred rates, but they did end the annual appropriation to fund reduced-rate mail. Part of this objective was achieved by shifting some of the overhead costs to other USPS customers.

From a mail classification perspective, we and our customers are disturbed by the complexity of the new restrictions on commercial advertising in nonprofit third-class mail. We are particularly sensitive to criticism that our mailing standards are too complex, and we have been attempting to simplify them to make it easier for our customers to do business with us. The legislation prohibits advertisements for products and services that are not "substantially related" to the nonprofit purposes of an organization. The Postal Service has opposed the creation of such "relatedness" standards in the past, because they are difficult to apply at the time of mailing, and may lead to the assessment of revenue deficiencies after mailings are made. This leads to increased mail acceptance costs for the Postal Service, and uncertainty for our customers.

We are currently devoting considerable effort to develop fair and equitable guidelines, applying wherever possible the Internal Revenue Service's standards for what is "substantially related" to an organization's purpose. We are also planning to rely, to a considerable extent, on mailers' good-faith compliance with those guidelines, rather than subjecting each mailpiece to detailed scrutiny and delay at the time of mailing. In the future, we hope that Congress will help us avoid these types of problems, by avoiding legislation that conditions reduced-rate eligibility or restrictions on difficult-to-apply subjective standards.

QUESTION: DO YOU CURRENTLY SEE ANY SIGNIFICANT ABUSE OF THE SUBSIDIES DIRECTED BY REVENUE FORGONE? ARE THERE ORGANIZATIONS DESIGNATED AS 501 (c) (3) THAT USE THE MAIL AT SUBSIDIZED THIRD CLASS RATES FOR PURPOSES THAT WERE NOT INTENDED TO BE SUBSIDIZED?

ANSWER: It has been our belief that the intent of Congress is to restrict revenue forgone eligibility to a limited number of groups. Our position has been that a narrow interpretation of

eligibility reduces opportunities for abuse. A suggested interpretation of the Act would be to limit eligibility to 501 (c) (3) charitable, religious, educational or scientific groups; 501 (c) (5) labor, agricultural, or horticultural groups; 501 (c) (8) and 501 (c) (10) fraternal beneficiary societies; or 501 (c) (19) veterans organizations. In addition, eligibility could include certain churches and church groups; organizations with minimal gross income; and classroom schools exempt by law or regulation from applying for formal recognition under section 501 (c) (3).

The Postal Service continues to do its best to interpret the statute in accordance with the intent of Congress, although the vague wording of the statute does present a challenge. We are not aware of organizations that are designated as 501 (c) (3) that were not intended to be subsidized.

QUESTION: HOW MUCH MAIL AT WHAT COST DO YOU CALCULATE IS SENT UNDER REVENUE FORGONE AND YET CLEARLY DOES NOT MEET THE TEST OF THE INTENT OF CONGRESS FOR POSTAL RATE SUBSIDY?

ANSWER: The Postal Service currently is developing regulations to implement the eligibility restrictions, so it is somewhat premature to respond fully to this question. A preferred interpretation of the intent of Congress would exclude 501 (c) (4) social welfare organizations; 501 (c) (6) business leagues; 501 (c) (7) social clubs and certain political parties and committees which currently are permitted to mail at nonprofit rates. Under this interpretation we estimate the annual savings associated with excluding those groups would be on the order of $23 million at full rates.

It was originally our intention to use the Internal Revenue Code with regard to "substantially related" products or services as our guide in interpreting revenue forgone eligibility. We are acutely aware of the concern that our regulations will have on the mailing community and have sought written and oral comments on our proposed rules. We have received written comments from over 560 parties and oral comments at a public meeting from 14 individuals. Many of these comments were insightful and helpful. We are reviewing them all and our final rulemaking will incorporate these suggestions where appropriate.

It continues to be our position that a clearly articulated rule that closely follows IRS standards for "substantially related" matter is preferred. We also are concerned that we minimize the paperwork impact of the new rules on both ourselves and our customers.

EXPRESS AND PRIORITY MAIL

QUESTION: HAVE THE NEW EXPRESS MAIL AIR HUB CONTRACTS GENERATED ANY SIGNIFICANT NEW VOLUMES OF EXPRESS MAIL?

ANSWER: No. Express Mail volumes have increased only slightly since the opening of the hub.

QUESTION: IS THE EXPRESS MAIL AIR NETWORK ESSENTIAL FOR YOUR PRIORITY MAIL PRODUCT? IF NOT, CAN THOSE MAIL VOLUMES BE TRANSPORTED ON THE COMMERCIAL AIR TRANSPORT SYSTEM AT SUBSTANTIALLY LOWER COSTS?

ANSWER: The Eagle Network provides air transportation of Priority Mail during hours of the night when commercial air transportation is not available. Although the destination core cities on the Eagle Network could be served by later arriving commercial flights, the use of the Eagle Network affords the Postal Service additional time through earlier arrivals at the destination airport in which surrounding areas and cities can be reached by surface transportation moving Priority and other classes of mail. If later arriving commercial flights were used in lieu of the Eagle Network, Priority Mail destined for many of thses cities and areas often would have to transfer at major commercial air hubs to reach the final destination in a shorter time period, thereby increasing the risk of service failure.

Finally, commercial airlines do not have adequate capacity during seasonal peaks such as Christmas to accommodate Priority Mail. Daily use of the Eagle Network for approximately 8 percent of the Priority Mail volume allows for rapid expansion of that service during times when commercial air cannot handle our product. This approach provides a good business balance between service and cost and is most advantageous to the Postal Service.

QUESTION: HOW MUCH OF THE TOTAL VOLUME OF MAIL TRANSPORTED ON THE EXPRESS MAIL AIR NETWORK IS NOT EXPRESS MAIL? HOW DOES THIS COMPARE WITH THE VOLUMES OF LAST YEAR?

ANSWER: The average amount of mail passing through the Hub each night is 570,000 pounds, 76 percent of which is Priority Mail (433,200 pounds), while 24 percent is Express Mail (136,000 pounds). Last year we were averaging about 450,000 pounds total, with the same percentage split between the two classes of mail. The increased volume was attributable to the larger aircraft in the network and the expansion of surface feeder routes within a 150 mile radius.

QUESTION: I UNDERSTAND THAT YOUR ADVERTISING OF PRIORITY MAIL HAS BEEN EFFECTIVE IN GENERATING SUBSTANTIAL GROWTH. AS THIS TREND CONTINUES, DO YOU HAVE PLANS TO EXPAND THE CAPACITY OF THE EXPRESS MAIL NETWORK JUST TO ACCOMMODATE THE NEW VOLUMES?

ANSWER: It is not our policy to expand the Express Mail air network to accommodate Priority Mail. It is our strategy to increase Express Mail volumes by acquiring dedicated mailers that use overnight and two-day express services and by increasing the network reach of the product.

QUESTION: IS EXPRESS MAIL LOSING MARKET SHARE IN THE OVERNIGHT SERVICE. WHAT IS YOUR CURRENT MARKET SHARE?

ANSWER: Yes. The market rate of growth currently is 10 percent, while Express Mail growth, through Accounting Period 6 of Fiscal Year 1994, is 6 percent. In Calendar Year 1993, our market share in volume of the overnight market was approximately 8.5 percent.

QUESTION: THE POSTAL SERVICE IMPLEMENTED A NEW AIR CONTRACT ON MARCH 12, 1994. THE SCHEDULED AIRLINES HAVE EXPRESSED, AND CONTINUE TO EXPRESS, DISAPPOINTMENT IN THE LOWER RATE THAT THE POSTAL SERVICE ESTABLISHED FOR THIS CONTRACT. I UNDERSTAND THAT THIS RATE REDUCTION COMES AT A TIME WHEN THE POSTAL SERVICE IS EMPHASIZING AND IMPLEMENTING SERVICE PERFORMANCE MEASUREMENTS THAT WILL REQUIRE MORE FROM THE AIRLINES. WOULD YOU COMMENT ON THIS?

ANSWER: The lower rate is a result of comprehensive market analyses performed by a group of aviation and accounting consultants. This rate reflects the rates paid in the commercial freight market and the Postal Service's position as the largest single user of cargo space on commercial airlines.

The new air system contract emphasizes the Postal Service's demand for high quality service. This is not new. The Postal Service demands a high level of performance from all its suppliers, and transportation suppliers are no different. The Postal Service has not added emphasis on service; rather, we have determined a different way to measure the service quality we receive from our commercial air transportation suppliers. The airlines are contractually required to transport the mail on flights specified on Postal Service routing instructions. This is the same requirement that existed in previous contracts for the air transportation of mail and under the CAB when air transportation was regulated by the Federal government. The measurement system will allow the Postal Service to differentiate and assign mail volume based on the level of service being provided.

The development of the Performance Measurement (PM) System began in September 1991 with a task force comprised of Postal Service and airline executives. This joint task force determined that the commercial airlines had the capacity and the schedules to meet a large percentage of the Postal Service's requirements. The task force also determined that the Postal Service should reward top performing airlines with more mail volume.

QUESTION: I ALSO UNDERSTAND THAT THE RATE METHODOLOGY USED BY THE POSTAL SERVICE TO DETERMINE THIS RATE HAS BEEN CHALLENGED IN AN INDEPENDENT STUDY THAT WAS CONDUCTED AT THE REQUEST OF THE AIR TRANSPORT ASSOCIATION AND THAT THE RATE METHODOLOGY IS CURRENTLY UNDER REVIEW. IS THIS CORRECT? IF SO, WHAT IS THE STATUS OF THIS REVIEW? THE COMMITTEE IS INTERESTED IN THIS ISSUE AND WOULD LIKE YOU TO KEEP US INFORMED OF ANY DEVELOPMENTS AND OF COURSE, PROVIDE US WITH THE COMPLETED REVIEW.

ANSWER: On November 4, 1993, the Postal Service provided a public and detailed briefing on the methodology used in the development of the uniform system rate. The Air Transport Association (ATA) and every airline was provided with the methodology, including two data sets, each containing over 20,000 records.

The ATA hired a consultant, Gellman Research Associates (GRA), to analyze the Postal Service's proposed rate. Several airlines and the ATA, with the assistance of their consultant, provided the Postal Service with comments. The report submitted by the ATA (37 pages) criticized the regression model, statistical techniques and estimation process.

The Postal Service, with the assistance of its consultant, Price Waterhouse, reviewed the GRA study, as well as the comments submitted by individual airlines. Individual responses were provided to the ATA and each airline. The result of our review led to a slight adjustment of our rate upward. For the most part, however, the criticisms did not persuade us to change the basic methodology. Given the chance that their data would be persuasive, the Postal Service provided the ATA, in a February 3, 1994 letter, with a request for specific data which we would require to further analyze the rate issue.

In a February 18, 1994 correspondence, the ATA informed the Postal Service that its member airlines, due to contractual and internal policy, would not be able to provide the specific and detailed data required by the Postal Service.

The ATA has suggested that the Postal Service accept average contract information, which individual airlines could provide. Average contract information is of little value in determining a fair and reasonable system rate. The Postal Service developed the uniform system rate using specific market data. Average data might contain accounts that are not comparable to the Postal Service and charges, such as insurance, that are not applicable. The Postal Service should be treated like any other large freight shipper who has specific needs.

All major airlines, with the exception of Alaska Airlines, have signed the new contract, which began on March 12, 1994, and will run through March 8, 1996. We continue to be open to discussion with all parties and hope that detailed information becomes available. We will be pleased to keep the Subcommittee informed of developments.

QUESTION: WHAT WERE THE VOLUMES OF EXPRESS MAIL LAST YEAR, WHAT ARE THEY THIS YEAR AND WHAT IS YOUR FORECAST FOR NEXT YEAR?

ANSWER: In Fiscal Year 1993, Express Mail volume was 52.4 million. For the first two quarters of this fiscal year volume is 25.1 million, 6 percent above the same period in Fiscal Year 1993. Our forecast for the entire fiscal year is 54.9 million pieces, or 5 percent above the previous fiscal year. Our current rate forecast calls for Express Mail volume to decline to 52.2 million pieces in Fiscal Year 1995.

QUESTION: WHAT WAS THE EXPRESS MAIL ADVERTISING BUDGET FOR LAST YEAR, THIS YEAR AND WHAT ARE THE ADVERTISING PLANS FOR NEXT YEAR?

ANSWER: In Fiscal Year 1993, the Express Mail advertising budget was approximately $31 million as shown in the current rate and classification case. Advertising budgets for current and future years are extremely sensitive business secrets and thus, the Postal Service does not disclose this information publicly.

QUESTION: WHAT WERE THE VOLUMES OF PRIORITY MAIL LAST YEAR, THIS YEAR AND WHAT IS FORECAST FOR NEXT YEAR?

ANSWER: Priority Mail volume was 664.4 million pieces in Fiscal Year 1993. We expected to handle 728 million pieces this fiscal year and 773.3 million in Fiscal Year 1995, assuming the proposed 10.3 percent increase is implemented at the beginning of the fiscal year.

QUESTION: BY USING EMPTY SPACE ON THE HUB FLIGHTS TO MOVE FIRST-CLASS AND PRIORITY MAIL, ARE YOU LOWERING THE UNIT TRANSPORTATION COST FOR EXPRESS MAIL AND SUBSIDIZING THIS PRODUCT WITH FIRST CLASS AND PRIORITY VOLUMES TO AVOID HAVING TO CHARGE A HIGHER EXPRESS MAIL RATE TO COVER FULLY ALLOCATED COSTS OF PROVIDING THIS SERVICE?

ANSWER: Although First-Class and Priority Mail share the capacity and the costs of the hub flights with Express Mail, they do not subsidize Express Mail. The First-Class share of the hub flights' cost is set equal to the commercial air equivalent cost for the weight of First-Class Mail on the hub flights. Thus, First-Class Mail traveling on hub flights pays no more than would be required if it traveled on non-hub, commercial air flights. Priority and Express Mail share all of the costs of hub flights, less the amount allocated to First-Class as described above, based on relative cubic feet of capacity used by each class. This has been appropriate in the past, given our dependence on the hub flights to meet both Express and Priority Mail service commitments.

QUESTION: YOU HAVE INDICATED THAT THERE IS NO ADDITIONAL COST OF USING EMPTY SPACE ON THE HUB FLIGHTS FOR OTHER MAIL CLASSES. CONSIDERING YOU ARE FLYING 727 AIRCRAFT WITH FAR MORE CAPACITY THAN IS NEEDED FOR THE ACTUAL VOLUMES OF EXPRESS MAIL TO BE FLOWN, COULD YOU EXPLAIN HOW THERE IS NO ADDITIONAL COST?

ANSWER: In the short run, on any given day, there may be excess capacity for hub flights which can be used at little or no additional cost. In the long run, however, increases (decreases) in Express and Priority Mail volumes will require increase (decreases) in hub flight capacity for which those classes should, and do, pay the cost.

QUESTION: TAKING INTO CONSIDERATION THE COSTS OF OPERATING YOUR HUB AND FLEET OF AIRCRAFT WITH YOUR STATED EXCESS CAPACITY, ARE THE EXPRESS MAIL RATES BELOW WHAT THEY SHOULD BE TO ALLOW YOU TO COMPETE WITH THE PRIVATE SECTOR?

ANSWER: No, as explained above, Express Mail pays its share of hub flight costs and there is no cross subsidy of Express Mail by other classes. Thus, Express Mail competes fairly in the market place.

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